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THE EFFECTS OF GERMAN CLEARING AGREEMENTS AND IMPORT RESTRICTIONS ON COTTON, 1934-1939

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With the outbreak of the war the German market for American cotton vanished. This, however, was merely the final episode in a steady decline which began in 1934 when Germany introduced severe cotton controls. From an average of about 13 per cent prevailing during the five years before controls were established, the German share in American cotton trade fell to a scant 6 per cent in 1938. Out of a decline of 11 million bales in our total exports of lint cotton, the German market (excluding reexports) dropped over 3 million bales during the five years, 1934-1938, compared with the previous five years. This disproportionate loss in the German market, over 50 per cent compared with less than 25 per cent for our non-German market, suggests the drastic impact of the German control regime. It is the purpose of this paper to analyse the effects of these controls both on Germany and the cotton supplying countries. It is hoped, further, that this study will throw some light on the more general aspects of the German control system which embraced virtually a government monopoly of all foreign trade.

I

By a series of measures beginning early in 1934 Germany practically withdrew from the unrestricted world cotton market and

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placed cotton on arbitrary trade and price bases. This was done chiefly by (1) the rationing of imports and consumption, (2) the application of comprehensive price controls, and (3) the development of bilateral clearing or compensation arrangements. Imports of lint cotton were drastically curtailed despite rising domestic demand for textile raw materials. During the five years, 1934–1938, imports for domestic consumption were 20 per cent below the level of the preceding five years and a flourishing entrepôt trade (Germany formerly re-exported over a fifth of its cotton imports) was almost completely wiped out. Domestic

TABLE I

SOURCES OF GERMAN IMPORTS OF LINT COTTON: 1932–1939

(In Percentages of Total Volume)

	1932	1933	1934	1935	1936	1937	1938	1939[a]
United States	79.0	75.2	59.9	24.2	29.9	26.7	18.0	19.1
Egypt	8.8	9.4	14.0	12.7	12.3	16.1	18.1	18.0
India	5.5	8.6	11.0	9.0	12.5	10.4	8.8	12.5
Argentina	1.3	1.3	1.8	4.7	4.1	2.4	6.5	3.4
Brazil	0.1	[b]	2.6	26.6	14.6	25.5	32.4	27.0
Peru	2.2	2.3	3.6	8.1	7.9	7.6	5.7	4.7
Mexico	0.1	0.1	0.1	1.1	3.7	3.2	3.9	3.5
Turkey	0.6	0.2	1.8	4.9	6.8	3.4	1.4	2.8

Source: *Monatliche Nachweise über den Auswärtigen Handel Deutschlands*, Herausgegeben vom Statistischen Reichsamt, December, 1932–June, 1939.

[a] First half.

[b] Less than 0.1.

prices rose far above the world market level and internal production of high-cost substitutes rapidly increased. At the same time other countries displaced the United States in the diminished German market. More than one half the decline in imports of American cotton was offset by increased imports from Brazil and other countries. The marked shift in the shares of the German market is depicted in Table I.

This diversion of trade was accomplished chiefly by means of bilateral clearing or barter arrangements. Unwilling or unable to provide foreign exchange for cotton imports, Germany employed devices for carrying on international trade without the

payment of freely negotiable currency.[1] The payment procedure ranged between the extremes of outright barter, waiving money payment of any sort, and the use of pooled funds or clearing accounts set up in Germany and the partner country, to which importers in the respective countries made remittances in domestic currency and from which exporters received payment in their own currency. All the important forms of clearing and compensation arrangements were used, but a typical method included the following: (1) a German importer obtained permission from the control authorities to import a specified amount of cotton from a particular country at a certain price; (2) he paid the price of the shipment in German currency deposited in a German bank to the account of the cotton exporter or the exporter's bank (sometimes the central bank); (3) the foreign exporter or bank might, depending on the regulations in force, either sell the currency to an importer in the same country or use it directly for purchases of German goods of certain permitted kinds; and (4) the goods were disposed of in the foreign market, completing the transaction. Although this was the essence of the method, detailed procedure varied from case to case and in practice was much more complicated.[2]

German attempts to carry on trade with the United States by these devices were not very successful, although in 1935 and the first half of 1936 a large portion of diminished cotton exports to Germany was financed through compensation or ASKI marks which were sold to American importers at a discount by cotton exporters or their banks.[3] The latter were rather reluctant,

[1] According to the German Institut für Konjunkturforschung about 80 per cent of tota, German foreign trade in 1938 was carried on through various forms of clearing, compensationl or payment agreements. *Weekly Report*, Number 19/20, May 23, 1939, Supplement, p. 2. It should be noted that payment agreements permit the transfer of freely negotiable exchange up to a certain maximum, frequently set at a certain percentage of the value of exports to the partner country. But very little cotton has been imported through payment agreements.

[2] For detailed analyses of the procedure involved see the text of relevant German laws, decrees, and administrative rulings published by the Bank for International Settlements in its series of volumes on foreign exchange regulations; Dr. Karlrobert Ringel, *Warenclearing*, Heft VI, Schriftenreihe zum Devisenarchiv, and Dr. Otto Ahbe, *Die Praxis und Mängel des Kompensationsgeschäftes*.

[3] An excellent account of ASKI trade as applied to cotton is given in *Use of ASKI Marks in Financing Cotton Exports to Germany*, special circular 411, September 24, 1935, Finance Division, Bureau of Foreign and Domestic Commerce, U. S. Dept. of Commerce.

however, to take payment in non-negotiable German currency for it was difficult to find American importers who could make profitable use of the currency. The market for German manufactures in the United States was relatively limited because of tariffs, unofficial boycotts, and relatively high prices. Furthermore, the United States government opposed the German trading devices on the grounds that they constituted export subsidies by reason of the depreciation of segments of the German currency from the official gold value. In June, 1936, countervailing duties were imposed against German imports paid for with depreciated marks.[4] When Germany outlawed these dealings with the United States penalty duties were removed, but cotton exports to Germany fell to a new low point. In December, 1936, a new practice, designed to meet American approval, was introduced for buying cotton through "inland accounts" at a price premium of about 33 per cent. Since these funds had to be used for the purchase of German exports by the original owner there was no market discount. On this basis trade was resumed at a slightly higher level. This lasted for little more than a year, for in March, 1939, countervailing duties were again imposed on the grounds that the new practice did not eliminate export subsidies. Cotton exports to Germany again declined and after the war broke out dwindled to the vanishing point.

Those countries with which Germany was most successful in promoting compensation cotton trade made the greatest gains in the German market. Brazil's share, for example, rose from less than 1 per cent in the first half of 1934 to nearly 35 per cent in the first half of 1938. Less spectacular and more erratic were the increases of Argentina, Peru, Mexico, Turkey, India, and Egypt, but the influence of compensation trading was unmistakable. Nearly all of these countries—by concluding agreements with Germany and by curtailing trade with some or all free exchange countries—actively encouraged this sort of trade. India was

[4] For good accounts of this and subsequent government regulations respecting cotton trade with Germany, see United States Tariff Commission, *Compilation of Data on United States Trade With Germany*, April, 1939, pp. I–IV; and *Regulations Governing German Trade with the United States under 'Inland Accounts' or Cotton Barter System*, special circular no. 426, July 15, 1938, H. A. Quirin, Finance Division, Dept. of Commerce.

somewhat of a stumbling block[5] but its share in the German cotton market tended to increase after 1932 because prices of Indian cotton fell appreciably in relation to those of higher grade varieties. Faced with a scarcity of foreign exchange, the German authorities might be expected to favor lower priced cotton even at some sacrifice in quality. Brazil also, for a short period after the middle of 1935, attempted to force Germany to pay freely negotiable exchange for cotton.[6] But an analysis of trade and price statistics indicates that the attempt was not successful or else not seriously enforced.

II

Germany's withdrawal from the world market opened up a wide breach between domestic and world market prices of cotton. After 1934 the disparity was over 40 per cent compared with the pre-control period when German cotton prices were linked closely to those in world trading centers by means of price and currency arbitrage and free trade in cotton. Import restrictions, and the apparent accumulation of a war reserve out of diminished imports, forced up internal prices. Indeed, German prices would surely have risen far more had the government not restricted price increases, rationed consumption, and encouraged the production of domestic substitutes.

Trade restrictions also tended to depress the world price of cotton. The closing of the German market to American cotton meant intensified competition elsewhere. Furthermore, increased German demand for cotton from other countries tended to accelerate their expanding cotton production and exports rather than merely to substitute the German market for their pre-existing foreign markets. Consequently, American exporters were not compensated elsewhere for their diminished exports to Germany. Undoubtedly other factors played a part in the loss of the German market, such as crop restriction in the United States and increased foreign production unrelated to German controls, yet German trade policy was of considerable importance. The influence of

[5] Dr. Otto Ahbe, *op. cit.*, p. 76.

[6] *Latin American Financial Notes*, 172, May 13, 1935 and 175, June 17, 1935, Finance Division, U. S. Dept. of Commerce.

other factors may be suggested by comparing exports to Germany with those to Great Britain, a free market. During the five years before restrictions *net* export to Great Britain was about one and a half million bales greater than to Germany. But during the next five years Great Britain, in spite of reduced purchases of American cotton, bought nearly four million bales more than Germany. Our share of the British market fell from 52 per cent to 44 per cent in contrast with the decline in the German market from 75 per cent to 33 per cent.

III

Compensation trade and the resultant shift in the sources of supply of German cotton imports brought about higher import prices than would otherwise have prevailed because of: (1) the discount on compensation marks against gold marks; (2) the administrative expenses, delays, and risks involved in doing business on a compensation or barter basis; and (3) the relatively high foreign currency prices at which Germany bought cotton in some countries. As a general rule, the depreciation on compensation currency was the chief factor. Indeed, Germany had a two-price system in its foreign trade: (1) prices quoted in marks freely convertible into gold or other negotiable exchange at or near the official par rate; and (2) prices quoted in compensation, ASKI, or inland marks which had to be used to buy German goods under varying degrees of restrictions. These two prices may be designated gold prices and compensation prices.

Compensation prices represented a closer approximation than gold prices to the effective internal price. Probably at a given time cotton of equivalent grades was sold on all German markets at practically identical net prices (allowing for internal transport costs) irrespective of differential import prices, and thus the highest compensation import price probably set the minimum internal price. With these conditions it might appear that cotton purchased at gold prices could have been sold at an appreciable profit on the internal market. This was prevented in two ways. In some cases importers were required to sell gold cotton at approximately the gold price to German exporters who competed with foreign producers able to buy cotton at gold prices.

TABLE II

SEMI-ANNUAL AVERAGE PRICES FOR AMERICAN MIDDLING COTTON ON BREMEN EXCHANGE AND ON INTERNAL MARKET, AND IMPORT PRICES FOR BRAZILIAN COTTON WITH PERCENTAGE PREMIUM OR DISCOUNT RELATIVE TO BREMEN GOLD PRICES: 1932–1939

(Marks per 100 kg)

	BREMEN GOLD PRICE	LEIPZIG AND BERLIN PRICE[a]	PER CENT DIFFERENTIAL	BRAZIL IMPORT PRICE	PER CENT PREMIUM (− DISCOUNT)
1932	68.3	75.5	11.0	66.0	−3.2
	71.6	78.5	10.9	b	
1933	72.8	78.8	10.8		
	70.4	82.3	11.6		
1934	75.6	82.0	10.8	74.9	−0.9
	80.7	88.3	10.9	89.0	10.3
1935	77.2	114.8	48.7	110.2	42.7
	75.3	110.1	46.2	112.8	49.8
1936	75.4	111.0	47.3	111.5	47.9
	80.2	113.3	41.3	102.6	27.9
1937	85.2	119.5	40.2	107.6	26.2
	62.4	88.7	42.1	93.8	50.4
1938	57.7	85.4	48.0	80.5	39.3
	56.0	79.1	41.3	72.9	30.2
1939	58.0			71.6	23.4

Source of data: Statistische Reichsamt, *Vierteljahrshefte zur Statistik des Deutschen Reichs*, Erstes Heft, 41 Jahrgang, 1932–48 Jahrgang, 1939; *Monatliche Nachweise über den Auswärtigen Handel Deutschlands*, June and December, 1932–June, 1939; and *Statistisches Jahrbuch für das Deutsche Reich*, 1932–1938.

[a] Leipzig price from 1932 through 1936; thereafter not available. Berlin price for same quality cotton during 1937 and 1938, the only years for which available. The Berlin price of American middling was practically identical with the price of Sao Paulo (Brazil) Type VI.

[b] Negligible or no imports recorded.

In other instances the government levied a tax absorbing the difference between gold and internal prices.[7]

[7] *Bulletin of the Hamburg World Economic Archives*, Vol. II, July 1, 1936, "Alterations in the Supply of Raw Materials for the Textile Industry", pp. 13–15; also *Statistisches Jahrbuch für das Deutsche Reich 1938*, herausg. vom Stat. Reichsamt, p. 324.

German cotton prices from 1932 to the middle of 1939, shown in Table II, indicate the disparity between domestic and world market prices, and between German import prices of Brazilian cotton (as calculated from official import statistics) and world market prices. The latter are represented in the table by Bremen prices which followed Liverpool gold prices closely during the entire period. After controls were introduced, however, internal prices were no longer based on gold, and official prices in Leipzig and Berlin (actual prices may have been even higher) became the best available indication of the course of internal market prices. During the control period these were between 40 per cent and 50 per cent above the world market level as opposed to about 10 per cent in the pre-control period. Inspection of this table also suggests that import prices under compensation arrangements (most, if not all, Brazilian cotton was obtained in this way after the middle of 1934) were roughly equivalent to internal prices, although close correlation was not to be expected because of such factors as the time lag between importation and sale on the domestic market and inaccuracies, deliberate or unintentional, in official price statistics.

IV

As a general rule, clearing marks traded at a discount and hence caused German import prices to rise. The discount emerged because demand failed to absorb current offerings at the par rate. In other words, in a given market with a given supply schedule of clearing marks, the demand was so limited by restrictions on the uses for which the currency could be employed and the permitted uses were so unattractive that clearing marks fell to a discount. Not the refusal of the German government to convert clearing marks into gold at par but rather the nature and application of the controls caused depreciation. In practice both demand and supply conditions were subjected to varying degrees of control by both German and foreign governments. The German government manipulated the supply of clearing marks through its control over imports, and foreign governments did likewise through their control over exports to Germany. Similarly, Germany augmented or decreased the demand by manipulating the uses for

which clearing currency could be employed and by lowering or raising prices of German exports, while foreign governments attempted to control the demand by placing government orders with German manufacturers or inducing private importers to buy from Germany rather than from other countries. Sometimes the price of clearing marks was set by negotiation between a single buyer and seller in each country, the Reichsbank and the foreign central bank. In other cases the control authorities permitted private parties to establish prices for clearing marks through competitive bids and offers, but access to the market was subject to control. In several instances, notably in German trade with the Netherlands and the Scandinavian countries, the controls increased the demand and restricted the supply in such a way that clearing marks were bought and sold at approximately par rates even by private traders.

In view of the diversity of conditions surrounding the markets for clearing marks and the absence of international arbitrage, it was to be expected that exchange rates would differ from time to time and from country to country. In March, 1937 average discounts on clearing or compensation marks in several European and Latin American countries were as follows:[8]

Rumania	37.2	Czechoslovakia	2.7
Yugoslavia	32.7	Netherlands	2.0
Bulgaria	25.7	Chile	28.5
Hungary	20.8	Ecuador	24.0
Austria	10.8	Brazil	20.5
Greece	10.3	Peru	20.3
Poland	5.9	Colombia	13.8
Turkey	3.9		

It seems clear that the price paid by Germany for cotton imported from any given country would have to be high enough in the long run to cover the discount on compensation marks, else cotton exporters would have refused to sell to Germany against payment in "cotton marks." The rapidity with which this adjustment could take place would depend upon the availability of outside markets to which cotton exporters could shift

[8] These rates have been compiled from various sources, but chiefly from reports of central banks and *Latin American Financial Notes*. Several were supplied the writer by Dr. Racz, secretary of the Royal Hungarian Office of Foreign Trade.

their sales if the price obtainable in Germany seemed to them unsatisfactory. This attempt to shift sales would occur when-

TABLE III

British and German Import Prices of Brazilian Cotton and Price Premium Compared with Premium of Free Exchange over Compensation Marks in Brazil: Semi-Annual Averages, 1934–1939

(Marks per 100 kg)

	British Import Prices (Gold Basis)	German Import Prices	Per Cent Premium	Free Exchange Premium[a]
1934	71.2	74.9	5.2	b
	74.4	89	19.6	17.8
1935	77.7	110.2	41.8	28.8
	73.5	112.8	53.5	27.5
1936	70.1	111.5	59.0	31.4
	73.4	102.6	39.8	30.2
1937	79.0	107.6	36.2	26.1
	65.1	93.8	44.1	26.7
1938	55.0	80.5	46.4	28.3
	52.2	72.9	39.7	26.7
1939	54.0	71.6	32.6	

Sources of data: *Annual Statement of the Trade of The United Kingdom with British Countries and Foreign Countries.* Statistical Office of the Customs and Excise Dept. Vols. II for 1934–1937, also June issues of monthly publication, 1934–1939. *Monatliche Nachweise über den auswärtigen Handel Deutschlands; Estatisticas Econômicas* (Publicacao Trimensal) Diretoria de Estatistica Ecônomica e Financeira de Tesouro Nacional, Ministerio da Fazenda, Brazil, Ano II, no. 7 e 8, pp. 25 and 52–55, and *Boletim Estatistico*, Banco do Brasil, Jan. 1939, p. 40–1.

[a] The premium of freely negotiable exchange over compensation marks was calculated by dividing the milreis price of clearing marks by the milreis price of dollars in the free market to obtain the dollar equivalent of clearing marks in Brazil. The premium of the official dollar price of marks over the dollar price of clearing marks was then calculated. Calculations based on the disparity between compensation marks in the free clearing and the official clearing markets would show higher premia (or discounts) but the official clearing rates were arbitrary.

[b] Compensation rates not available before the middle of 1934 or for 1939.

ever prices, adjusted for the discount on "cotton marks," were lower than the world market level.

The relation between cotton prices and exchange rates may be indicated by a comparison between German import prices for

Brazilian cotton and the rate of exchange on compensation marks in Rio de Janeiro. This is done in Table III which shows British import prices of Brazilian cotton (converted to marks at the official rate) and German import prices, as well as the per cent of premium on the latter. This price premium may be compared with the premium of freely negotiable foreign exchange over compensation marks (the reciprocal of the discount on marks). These figures in Table III indicate that from the middle of 1934 through 1938 the cotton price premium was more than enough to absorb the discount on compensation marks. Indeed, considering that by clearing arrangements Germany bought a larger proportion of low-grade cotton than Great Britain, the real price difference was greater than the figures indicate. That portion of the price premium which exceeded the discount on marks was available to cover the additional costs, risks, and delays of compensation business or went as windfall gain to Brazilian cotton exporters.

V

The evidence indicates that compensation and clearing business involved increased marketing and financing costs.[9] Special and frequently cumbersome agencies were commonly set up to handle compensation business. This inefficiency was particularly prominent in the four-cornered barter deals involving an exporter and importer in both Germany and the partner country. Delays were often encountered in finding proper partners to consummate deals, in filling orders, in obtaining payment, and in similar matters. Complaints against these delays were common among business men and governments which dealt with Germany. While it is true that these matters were often less costly than when trade was attempted under even more rigid exchange restrictions, the fact remains that frequently costs were higher than when trade was unrestricted, and while the possibility of reducing marketing and financing costs incurred under free enterprise methods by substituting government agencies and government credit resources

[9] These costs have been the subject of frequent comment. See for example, Ringel, *op. cit.* pp. 38 *ff.*; Ahbe, *op. cit.* pp. 97 *ff.*; J. Mayer, M. Horna, and A. Sourek, *Neue Weg der Handelspolitik: Wirtschaftlicher Nationalismus, Clearing, Kompensation*, pp. 113–14; and Dr. Kurt Kroymann, *Clearing und Kompensation im Aussenhandel*, zweite Auflage, pp. 51 *ff.*

should be noted, it is questionable whether this actually materialized on any significant scale under clearing agreements.

Another serious extra cost encountered in clearing trade was delay in payment. Some countries had large credits immobilized for many months on a non-interest-bearing basis in clearing accounts in Germany.[10] Among them, Brazil and the southeastern European countries—suppliers of cotton, other raw materials, and foodstuffs to Germany—could ill afford to lend to Germany, for they were accustomed to finance their trade via foreign short-term credit by selling for cash and buying on credit. True, their own exchange restrictions had made obtaining short-term credits from free markets difficult, but the development of clearing trade with Germany did not necessarily overcome this difficulty for frequently they found they were selling on a forced credit basis and buying on what amounted to a cash basis. Central banks often felt compelled to pay cash in their own currency for exporters' claims due in Germany and even though these claims might be immediately collected in German currency, the funds were non-interest-bearing and were in effect immobilised until used to buy German goods. Hence, central banks were likely to put pressure on importers to pay cash on delivery (or even pre-pay) for their imports from Germany in order to liquidate holdings of clearing marks and to obtain funds in the domestic currency which could be invested profitably. These difficulties were aggravated by seasonal influences on bilateral trade values. Exports to Germany were typically concentrated at harvest periods while imports from Germany were subject to less seasonal variation.

There was also the further risk that holders of clearing marks might have to accept a greater discount than was originally anticipated. In the restricted market for clearing marks, the protection of hedging operations against exchange rate fluctuations could not be undertaken successfully because facilities for forward dealings were not well developed, if indeed they existed at all. Some protection to the central bank, however, was afforded by the maintenance of a wider spread between buying and selling

[10] Germany's clearing debts were estimated at 567 million marks in March, 1935, and 313 million in December, 1937. *Economist*, Dec. 3, 1938, p. 485.

rates than prevailed for free currencies and by the occasional refusal to buy clearing marks in order to liquidate an over-bought position.[11]

VI

Another cause of relatively high import prices of cotton was the tendency for increased German demand to force prices in clearing countries above the world market level and to induce expansion in production at relatively high costs. Several factors governed the extent of the price rise. The smaller the total production of a given country relative to German consumption and the more inelastic the demand of domestic and non-German foreign buyers for its production, the more sensitive were prices in that country to a small shift of German demand toward its exports. At least in the short period (single crop year with no appreciable carry-over) the price could rise above the pre-existing relationship with the world price. The extent to which expanded production evoked by increased German demand would sustain this price situation would depend chiefly on the costs of additional economic resources necessary for cotton production. If land, labor, and capital resources could be obtained only by bidding them away from alternative employments or if unemployed but inferior productive resources were utilized, costs of cotton production would rise and relatively high cotton prices would prevail so long as German or other buyers were willing to pay them. Other foreign buyers, however, probably would curtail their purchases unless they, too, were unable or unwilling to buy in the world market at gold prices. In the absence of import restrictions domestic consumers would shift from domestic to imported cotton if the domestic price should rise above the world price by more than the costs of importing. Under these conditions the development of exchange clearing could induce the import of a product whose home consumption was formerly provided solely from domestic production.

Some of these results were illustrated in the case of Turkey.

[11] The Bank of Brazil, for instance, sometimes maintained a spread of 10 per cent between buying and selling rates on clearing marks and on occasions refused to buy clearing marks at any price.

From 1934 through 1937 Germany bought about 75 per cent of Turkey's cotton exports and over 30 per cent of her total production as compared with negligible percentages during previous years. At the same time both exports and production in Turkey increased rapidly, chiefly in response to German demand. Since the Turkish economy was already operating at a relatively high level of output it is probable that its increased cotton production was forthcoming only at higher costs of production. At any rate, as indicated in Table IV, Turkish cotton prices, in terms of

TABLE IV

Germany's Importation of Turkish Cotton: 1932–1938 (1932 = 100)

	PER CENT OF TURKISH COTTON EXPORTS TO GERMANY	GOLD PRICE OF COTTON ISTANBUL[a]	GERMAN IMPORT PRICE TURKISH COTTON[b]	GOLD PRICE AMERICAN MIDDLING LIVERPOOL
1932	9	100	100	100
1933	12	98	101	100
1934	76	119	112	109
1935	94	152	133	106
1936	73	148	119	107
1937	59	146	130	101
1938	24	117	112	80

Sources of data: *Statistique Annuelle du Commerce Exterieur*, Republique Turque, Office Central de Statistique, 1932–1938, Ankara; *Bulletin d'Informations Économiques*, Ministère de l'Economie Türkofis, June and July, 1937; *Bulletin Économique* [title changed], Min. de l'Econ. Türk., Aug.–Dec. 1938; Jan.–Feb., 1939, p. 23; *Bulletin*, Banque Central de la République de Turquie, #25, Oct.–Dec. 1937, p. 46 and *Viertel. zur Stat. des D. Reichs*, 46 Jahrg., 1936, III, p. 191 *ff* and 47 Jahrg. 1937, III, 159, *ff; Monat. Nachweise u.d. ausw. Handel Deutschlands;* and *Foreign Crops and Markets*, and *Agricultural Statistics 1939*, U. S. Dept. of Agriculture, 1939, p. 116.

[a] Short staple cotton similar to American middling.

[b] Calculated from recorded volume and value of total cotton imports. German statistics do not classify cotton imports by different grades.

gold, rose far above their former relation to the world market level. Great Britain and France, who previously had taken a considerable proportion of Turkish cotton exports, abruptly stopped buying Turkish cotton, implying that German purchases forced prices to a level which was no longer attractive to British and French buyers. The failure of recorded German import prices (see Table IV) to rise as rapidly as Turkish market prices for a standard grade of cotton may be explained by Germany's shift to purchases of lower quality Turkish cotton. Correction for this

change suggests that German import prices in reality rose no less rapidly than prices on the Turkish market.

A comparison between German trade with Turkey and Brazil indicates certain similarities and differences. A considerable amount of imported Brazilian cotton was also of low quality as compared with the standard quality previously imported from the United States.[12] By taking inferior grades Germany stimulated the production and export of these types. This placed the exporting countries in a particularly vulnerable position, for, with a sudden curtailment of German demand, low quality cotton could not be sold in alternative foreign markets as readily as standard grades. Hence, producers exerted strong pressure to maintain close trade relations with Germany.[13] Germany also paid approximately the same mark prices for cotton from both Turkey and Brazil. In 1935, for example, import prices for Turkish cotton were only 10 per cent below Brazilian. This price similarity, however, obscures important differences in the trade relations of the two countries with Germany. The Turkish market was almost completely dominated by Germany and increased demand for cotton induced a rapid price rise far out of line with the world market. On the other hand, Germany played a less dominant role in the Brazilian market, and expanded production in Brazil and increased exports to Germany took place without any significant change in the price relationship between standard Brazilian and American cotton in the world market, although it is likely that German demand tended to close the gap between prices of low and standard grades. In view of the world market relation between Turkish and Brazilian cotton why did Germany pay approximately the same mark price for cotton from the two countries?[6] The explanation lies in the fact that the exchange rate on Turkish, as opposed to Brazilian, clearing marks was held close to par. High German prices for Brazilian cotton reflected

[12] This fact was frequently pointed out in Germany. See, for example, *Frankfurter Zeitung*, Feb. 5, 1936 and July 13, 1938; Deutsch-Brasiliansche Handelskammer, Rundschreiben Nr. 182, July 27, 1938; *Bulletin of the Hamburg World Economic Archives*, Vol. III, March 15, 1937, pp. 157–8, and October, 1937, pp. 356–360; and *Vierteljahrshefte zur Statistik des Deutschen Reichs*, 45 Jahrg. 1936, I, 154–159.

[13] *Latin American Financial Notes*, no. 192, March 29, 1936; and *New York Times*, December 18, 1938, p. 43.

the depreciation of clearing marks, while high prices for Turkish cotton reflected high cotton prices in Turkey. Germany, therefore, in effect subsidized high cost production in Turkey and carried on trade with that country on approximately a gold basis whereas trade with Brazil was on a depreciated currency basis. If "cotton marks" had sold at the same discount in Turkey as in Brazil Germany would have paid much higher prices for Turkish cotton.

TABLE V

German Prices and Production of Staple Fibre Compared with Domestic Prices and Imports of Cotton: 1933-1938

(Prices in marks per kg; production and imports in thousands of metric tons)

	PRICES		PRODUCTION	IMPORTS FOR CONSUMPTION	
	Staple Fibre	Cotton	Staple Fibre[a]	Lint Cotton	Linters and Waste
1933	2.22	0.80	5	344	57
1934	1.96	0.85	9	254	83
1935	1.90	1.13	20	261	87
1936	1.73	1.12	45	221	88
1937	1.55	1.04	100	241	105
1938	1.45	0.82	155	248	103

Sources: Staple fibre—*Statistisches Jahrbuch für das Deutsche Reich 1938*, p. 324; and Institut für Konjunkturforschung, *Weekly Report*, #49/52, December 22, 1937, p. 110, #9/10, March 9, 1938, p. 18, and #21/22, June 2, 1939, p. 59. See also Table II.

[a] The Institut für Konjunkturforschung estimates that about 70 per cent of staple fibre production was used by the cotton industry and the remainder by the woolen industry.

VII

The reduction in the volume and quality of lint cotton imports and the increase in cotton prices were accompanied by increased imports of cotton linters and waste, at a fraction of the price of lint cotton, and the rapid expansion of domestic production of *zellwolle*, or staple fiber, a synthetic cellulose substitute for cotton (see Table V). In order to conserve cotton stocks and to hold down internal prices the government introduced a strict rationing of cotton consumption. In 1937 manufacturers were permitted to buy only between 30 per cent and 40 per cent of their average 1933/34 requirements for cotton. Simultaneously, manufacturers were compelled to mix a certain percentage of staple fiber (in

1937 as high as 30 per cent for some products) in the production of finished goods.[14] This created an artificial demand for staple fiber at prices far above the level of cotton prices, a demand so great that it is reported the producers were making handsome profits (by 1936 and 1937) even after liberal allowances for capital write-offs.[15] Consequently, the government on several occasions forced manufacturers to lower their prices, but a considerable price disparity remained as indicated by the trend of prices shown in Table V.

VIII

Ultimately German consumers bore most if not all the real costs of German cotton controls. As indicated above, German import prices probably increased enough to cover the discount on clearing marks, the extra costs of clearing trade, and the high costs of cotton production. Increased prices of cotton, combined with a growing use of domestic substitutes which were even higher in price, forced up prices of finished goods. In fact, German clothing prices increased more rapidly than any other segment of the cost of living index from 1933 to 1938, while in the United States and Great Britain, for the same period, food prices rose more rapidly than clothing prices. In addition, German consumers were forced to accept inferior quality finished products as a consequence of the reduced quality of raw materials. It is likely, too, that the necessity of using inferior materials caused a decline in the efficiency with which raw materials were converted into finished goods, putting an additional burden on consumers.

While the real incomes of German consumers of textile products were reduced, it is far more difficult to analyze the net effects of cotton barter on aggregate real incomes in Germany and the cotton supplying countries. Many groups were directly and indirectly affected in various ways. For example, the loss to German consumers was to some extent offset by the gain to the government—and, presumably, to the German economy as a whole—from the tax collected from the differential between the import price of cotton bought with gold exchange and the in-

[14] *Bulletin of the Hamburg World Economic Archives*, III, no. 24, October 15, 1937, p. 374-377.
[15] *Ibid.*

ternal paper mark price. It may be argued, further, that the payment of high mark prices for cotton imported under clearing enabled Germany to reduce the amount of subsidies paid to German exporters of manufactured goods and hence redistributed the tax burden on the German public with no appreciable net increase. Again, it might be that exports to cotton-supplying countries were not subsidized prior to the introduction of clearing trade and that subsequently export prices rose as rapidly as import prices. Under these conditions increased incomes in export industries would compensate for decreased incomes of cotton consumers. On the other hand, if German export prices underwent no net change, cotton-supplying countries would tend to gain at the expense of the German economy. Although it is beyond the scope of this paper to analyze these matters in detail, some suggestions may be offered concerning the effects of clearing arrangements on the terms of international trade.

IX

The control of cotton imports was integrated into a comprehensive control of all imports and exports, and one of the major objectives of German policy was to obtain imports from clearing countries on as favorable terms as possible in order to maximize German economic and military power.[16] This suggests the probability that the German government attempted to prevent an adverse shift in the terms of international trade by imposing an export price policy designed to charge "what the traffic would bear." Germany was in no position to give away exports. What implications did this have for cotton-supplying countries? On the principle of charging maximum prices, could Germany, other things being equal, raise prices to cotton countries by the equivalent of the price premium paid for their cotton? If, for example, Germany bought cotton at a premium of 50 per cent above the world price could it increase export prices (*net* prices after deduct-

[16] Evidence of this objective appeared on every hand: in numerous articles and comments in German periodicals such as the *Wirtschaftsdienst*, *Mitteilungen des Hamburgisches Weltwirtschafts-Archiv*, *Deutsche Volkswirt*, *Wirtschaftskurve*, and *Frankfurter Zeitung*; in the series of decrees (beginning in September, 1934) which attempted, unsuccessfully, to prohibit import price premiums; in the progressively more severe controls over exports; and in the rapid rise of export prices to many clearing countries.

ing internal subsidies) to a similar level above the prices of competing countries? The answer seems to be in the negative, because increased import prices for cotton were in part the result of higher costs of production and distribution incurred under clearing trade and it does not seem likely that the German economy could have escaped paying these costs. On economic grounds, therefore, the German "export price maximum"—assuming no change in prices of competing countries—was determined chiefly by the degree of depreciation of "cotton marks."[17] From this it follows that Germany, if it were so disposed, could have charged higher prices for exports to Brazil than to Turkey because clearing marks were at a greater discount in the former than in the latter country.

On economic grounds a policy of differential export prices would have been possible as well as rational, and there is some evidence that it was practised. The writer has made a careful analysis of German, British, Belgian, and American export prices to various countries over ten years, 1929–1938, for about 20 products (tin plate, steel rails, iron and steel bars, plates, sheets, pipe, and wire, coal, cement, typewriters, textile machinery, etc.). This study suggests that Germany established differential export prices and frequently charged relatively high mark prices for exports to countries in which clearing currency was depreciated. For example, German tin plate prices (from recorded export statistics) to various countries in 1933 were within the narrow range of 53 per cent to 59 per cent of 1929 prices, and British prices in terms of gold were between 58 per cent and 63 per cent of the 1929 average (in terms of paper, 86 per cent and 93 per cent). In 1937, however, German prices ranged between 59 per cent and 97 per cent as compared with the British price range between 69 per cent and 74 per cent (in terms of paper, 115 per cent and 123 per cent). Even more significant was the fact that German price differentials tended to correlate with differential exchange rates on clearing marks in various countries and thus

[17] Similarly, export prices to the United States for products bought with non-transferable "inland accounts" could have been increased, or existing export subsidies supplanted, by that portion of the price premium on cotton imports which exceeded costs of compensation business.

made effective export prices, adjusted for currency depreciation, more or less identical as in the case of Great Britain. This is shown by the following comparison between recorded export prices for tin plate, exchange rates, and effective export prices in 1937:

COUNTRY	RECORDED PRICES OF TIN PLATE (1929=100)	PER CENT DEPRECIATION OF CLEARING MARKS[18]	EFFECTIVE PRICES OF TIN PLATE
Rumania	97	37	61
Yugoslavia	89	33	60
Chile	77	28	55
Bulgaria	80	26	59
Brazil	78	21	62
Greece	68	10	61
Turkey	66	4	63
Netherlands	59	2	58

Furthermore, a comparison between export prices of various products in Germany, Great Britain, Belgium, and the United States indicates that, in general, cotton clearing countries failed to make any substantial improvement in their terms of trade with Germany relative to those with other countries. The gains made in the early years of clearing trade were in most cases eliminated by 1937 and 1938 when German export prices rose precipitously.[19]

X

The most significant conclusions from this study may be summarized in the form of a few statements:

1. German clearing devices diverted cotton trade from its normal channels, chiefly at the expense of the United States.

2. These devices, combined with the reduction in total imports of cotton, forced internal prices up and tended to depress prices on the world market.

3. German import prices were increased by the depreciation of "cotton marks," the expenses incurred in carrying on clearing

[18] These exchange rates are for March, 1937 (cf. *supra*) but average rates for the year would not be materially different.

[19] The writer hopes to publish the results of this study in the near future.

trade, and increased costs of cotton production in clearing countries.

4. The quality of imported cotton was reduced, the foreign production of inferior cotton promoted, high cost production subsidized, cotton supplying countries placed in a vulnerable position, and the use of high cost domestic substitutes encouraged.

5. The full impact of increased cotton prices and decreased quality was thrown on German consumers.

6. In the long run the German economy as a whole probably obtained cotton under clearing trade at a smaller real cost than that indicated by the price premium on imported cotton, for German export prices could have been, and apparently in some cases were, increased because of the depreciation of clearing marks.

RECENT EXPANSION IN THE SOUTHERN PULP AND PAPER INDUSTRY

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An outstanding phase of industrial development in the South during recent years has been the expansion of the wood pulp and paper industry. Expansion of this industry, although phenomenal during 1936, 1937, and 1938, has been taking place throughout the past two decades, and indications during 1940 are that further enlargement can be expected. A number of factors suggest, however, that future progress will be along slightly different lines.

More than $100,000,000 has been invested in new pulp and paper mills in the South[1] since 1935. On January 1, 1940, 47 mills were operating or under construction, representing an investment of over $200,000,000. In addition, plans had been announced for further construction.

Although the manufacture of pulp from wood and paper from pulp are separate processes, at times performed by different firms, most southern pulp and paper mills are integrated, manufacturing both woodpulp and the finished product. A relatively small amount of pulp is sold on the market as such. Several of the more recently constructed mills, it is true, are shipping pulp to northern parent companies, or occasionally selling to other paper mills, but in general the pulp is manufactured into the finished commodity in the South.

A fairly even distribution of pulp and paper mills has occurred throughout the South (Chart I) in spite of a marked tendency for the newer mills to locate on tidewater. Concentration has taken place, however, around several points, as Jacksonville, Mobile, and northern Louisiana, and shipment of pulpwood to

[1] Including Va., N. C., S. C., Fla., Ga., Ala., Miss., La., Tex., Okla., Ark., Ky., and Tenn.

these points over considerable distances may eventually become necessary for continued operation of all mills.

I

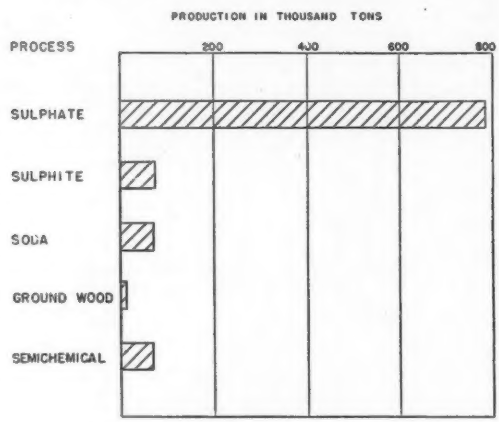
Five distinct processes are employed in the manufacture of pulp from wood—sulphate, sulphite, soda, groundwood, and semichemical. All five processes, each yielding a particular type of pulp adapted to the manufacture of specific items, are used in the South. Most mills employ only one process, but several mills combine two or more.

Chart I. Approximate Location of Wood Pulp and Paper Mills in the South

The sulphate process, using an alkaline liquor to separate the cellulose or wood fiber from the surrounding material, is better adapted to the manufacture of pulp from southern yellow pine than other processes, and is the one most extensively used by southern mills. During the past ten years eighty per cent of all southern pulp was produced by this one process (Chart II). Sulphate pulp is generally used in an unbleached form to make the so-called "kraft" products—brown wrapping paper, bags, paper boxes, fiber board, and similar commodities requiring a strong fibered pulp. A few mills are producing bleached sulphate pulp

using methods developed several years ago by the Forest Products Laboratory of the United States Forest Service, thereby making the pulp satisfactory for high-grade magazine, book, and writing paper, and it appears that opportunities for expanding this phase of the industry are especially favorable.

Two mills in the South use the sulphite process in combination with other processes to make book, bond, wrapping, and tissue papers from hardwoods. A new sulphite mill, designed to produce a high-quality pulp from southern pines suitable for the manufacture of rayon, is under construction. If this venture



Source: Report 126, U. S. Tariff Commission
CHART II. SOUTHERN PULP PRODUCTION BY PROCESS, AVERAGE 1929–1935

proves successful on a commercial basis, the rayon mills in the South provide a potential market for considerable quantities of this type of pulp.

The soda process, also utilizing hardwoods as the principal raw material, is an old one in the South. Five mills, all established a decade or more ago, employed this method in 1939. Pulp made by the soda process is usually mixed with sulphite pulp to make lithograph, book, and envelope paper.

The mechanical or groundwood process is the cheapest method of producing pulp, but paper made from such pulp is rather weak.

Groundwood is used chiefly in newsprint, although fiber board and low-grade magazine paper are also manufactured. Seven pulpmills in the South use the groundwood process either exclusively or in conjunction with other processes for these latter products, but none have produced newsprint on a commerical basis. Newsprint has been made experimentally from southern pines, and construction of a newsprint mill at Lufkin, Texas, was begun early in 1939.[2]

A combination of mechanical and chemical methods—the semichemical process developed at the Forest Products Laboratory about 1925—is employed to a limited extent in producing pulp. This process is customarily used on chestnut, tannic acid first being extracted and the remaining chips reduced to pulp. One mill also uses the process in making paper board from black gum.

II

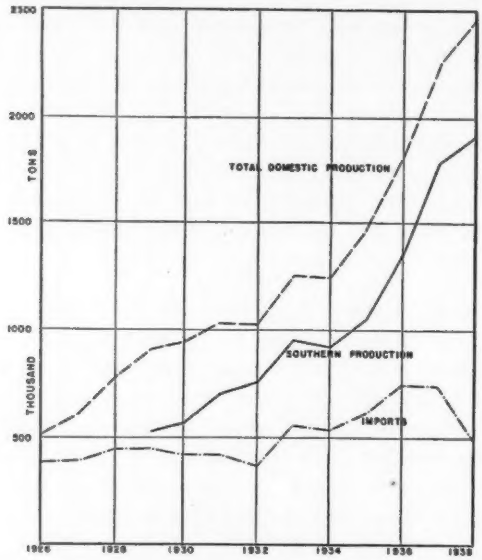
Kraft products,[3] made from southern pines by the sulphate pulping process, are the basis of the southern paper industry. For such items, pulp is used in the unbleached form. Some bleached sulphate pulp, as well as pulp produced by other processes, is used for various products, but the kraft industry has produced three-fourths of the South's paper tonnage during the past decade.

Although the kraft industry is not a new one in the South, the sulphate mill capacity has more than doubled since 1935. Kraft paper was first manufactured in the South as early as 1911. Between 1911 and 1920 the number of southern sulphate mills gradually increased to 9, and to 14 by 1929. Two mills were established in 1931, and 12 during 1936, 1937, and 1938, making a total of 28 mills operating on January 1, 1940—with another mill under construction. According to announced plans, however, the output of two of the 1938 mills will be largely bleached sulphate pulp for white paper.

[2] Construction of this mill was completed in January, 1940, with the first paper produced on January 17 and full commercial operation attained in February.

[3] The term "kraft" formerly referred only to dark brown wrapping paper made from sulphate pulp, but today includes a variety of items produced from unbleached sulphate pulp, including paper bags, cardboard boxes, fibre boxes, and several grades of colored wrapping paper. In common usage "kraft industry" often covers the entire field of pulp and paper manufacture by the sulphate process, in which wood is converted into pulp through the chemical action of sodium hydroxide and sodium sulphide.

In general, recent sulphate mills are of larger capacity than older mills. The combined sulphate capacity of the 28 operating mills is 2,644,000 tons of pulp (Chart IV). This is five times the combined southern mill capacity of all other processes and represents 80 per cent of the sulphate capacity of all mills in the United



Source: U. S. Department of Commerce and U. S. Pulp Producers Association
CHART III. IMPORTS, SOUTHERN PRODUCTION, AND TOTAL DOMESTIC PRODUCTION OF SULPHATE PULP

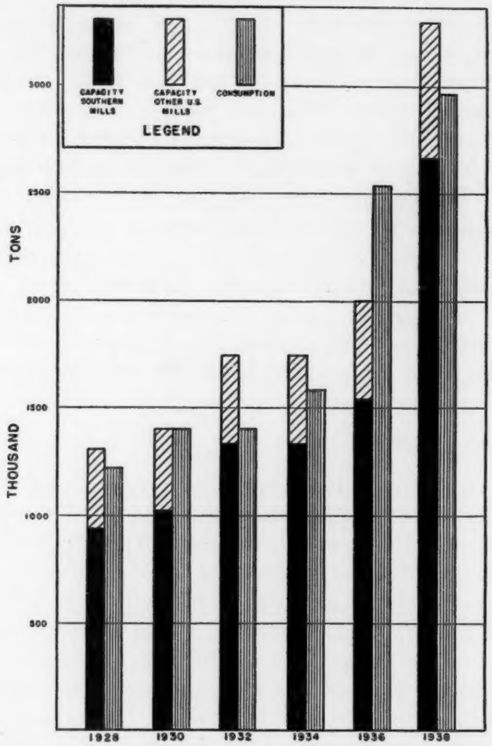
States. Southern kraft mills, therefore, not only dominate the southern pulp and paper industry, they also dominate the kraft industry of the United States.

III

Consumption of sulphate pulp, chiefly for manufacturing kraft products, has kept pace with the increase in mill productive capacity, even exceeding it at times. The quantity of sulphate pulp annually used in the United States tripled between 1925 and 1937 (Chart III). In 1937 approximately 3,000,000 tons of sulphate pulp were used, the maximum for any one year. Sixty

per cent of this was produced in the South, 15 per cent in northern and western states, and 25 per cent was imported.

Southern mills completed during 1938 increased the theoretical annual capacity of all sulphate mills in the United States to more



Source: Lockwood's Directory and U. S. Department of Commerce. Capacity based on annual operation of 320 days

CHART IV. SOUTHERN AND TOTAL UNITED STATES SULPHATE PULPMILL CAPACITY COMPARED WITH DOMESTIC CONSUMPTION

than 3,000,000 tons (Chart IV), a capacity slightly greater than national consumption in any preceding year. Since exports of finished kraft products have been negligible, the entire output of all United States mills normally must be absorbed by the domestic market. Further expansion of the southern kraft industry,

therefore, seems limited unless the domestic market for kraft products continues to increase or it becomes practicable to develop entirely new foreign markets.

From past market trends, it seems that there is a very definite possibility for continued expansion in the domestic market. Even during the depression years of 1930–1936 consumption was distinctly upward, and there are no clear indications that the trend will materially change during the next few years. In particular, any expansion in general business will directly increase the demand for wrapping paper and container board. On the other hand, the possibility of developing foreign markets appears less favorable. Foreign producers, Swedish in particular, have been able to compete with American producers on the domestic market, and it will be even more difficult for American producers to compete effectively on foreign markets. Construction of additional kraft mills in the South during the next few years can only anticipate a future market, and any immediate expansion of the southern pulp and paper industry should therefore be directed along new lines.

IV

Pine species principally are used for producing wood pulp by the sulphate process, although several species of softwoods and hardwoods are used in other processes. The dependence of the southern pulp and paper industry on sulphate woodpulp, therefore, means that at present the chief pulpwood resource is pine.

Research work of the United States Forest Service indicates that the volume of pine material in the South is extremely large from the viewpoints of woodpulp requirements alone. Preliminary findings of the United States Forest Survey show that 210,000,000 acres, 55 per cent of the area of the South exclusive of the grasslands of Texas and Oklahoma, are forested, and that approximately 56,000,000,000 cubic feet of pine was on this forest land in 1936. Although this volume of wood is enormous, of much greater significance is the net annual volume of growth and its relation to the volume cut. The total growth of softwoods, largely pines, was estimated by the United States Forest Service at 3,400,000,000 cubic feet in 1936. On the other hand, 3,800-000,000 cubic feet was cut for all products or was killed by fire,

diseases, and other causes during that year. Existing industries and domestic consumers, therefore, cut 400,000,000 cubic feet more of the pine volume than grew during the year with the result that the forest capital or growing stock correspondingly decreased.

If existing southern pulp mills are operated at full capacity (320 days a year) in the future, the total pine requirements will amount to 310,000,000 cubic feet (4.5 million cords), whereas the amount used in 1938 was 230,000,000 cubic feet (3.3 million cords). Pulpwood requirements are so small, roughly 8 per cent, in comparison with the total volume of wood cut in the region that the significance of southern forest resources for pulpwood alone cannot be accurately measured. A continued deficit each year, however, will decrease the forest growing stock of the South and thereby still further reduce the annual net forest growth. Expansion in pulp production or any other wood-using industry will therefore either deplete the forest resources of the region or necessitate the wider adoption of forest conservation measures. The possibilities of increasing forest growth through proper management to meet additional demands appear very favorable.

V

The economic structure of the southern states, except for specific areas where other industries have developed, is largely based on cotton and textiles, tobacco and tobacco manufacturing, timber and lumber production. Such extreme specialization is commonly recognized as undesirable, and is often blamed for many of the economic ills of the South. Recent developments in the pulp and paper industry are concrete steps in diversifying both agriculture and manufacturing.

In the first place, a new source of income is available to farmers and other landowners. An enlarged market in many areas is provided for pine timber, including young trees, cull trees, and tops and limbs from sawlog operations. More intensive forestry practices are justified than were formerly profitable. Abandoned agricultural land often can be reforested with increased profit to the owner.

In the second place, an enlarged industry—an entirely new one for several states—has resulted. The total number of employees

of southern pulp and paper mills in 1935 was 20,000, but this number will be increased to 40,000 when all new mills begin operating at full capacity. The total value of the finished product will be in the neighborhood of $180,000,000 annually. The pulp and paper industry is still decidedly secondary to cotton and tobacco as a source of income, yet it represents a major economic development during depression years.

Development so far has been principally in unbleached sulphate pulp and kraft paper, but opportunities for expansion along other lines appear favorable. Groundwood for newsprint, boards, cheap magazine paper, insulation material, and both sulphite and sulphate pulp for high-grade papers, rayon, lacquers, and plastics seem to be decided possibilities. Related chemical industries should also develop with the expanding market for sulphur, salt, rosin, and other products used in manufacturing paper.

Economic possibilities of the southern forest resources are only partially developed. Not only is more land used for forests than for all other purposes combined, but the amount of standing timber and volume of annual growth are considerably greater than previously realized. Moreover, large areas of abandoned cropland under existing economic conditions appear suitable only for forests. And it is possible to increase the average growth per acre throughout the South by improved forest practices should market requirements warrant.

Experiments by the Forest Products Laboratory and the Herty Pulp and Paper Laboratory also indicate the practicability of utilizing southern hardwoods for pulp and paper to a much greater degree. The total volume of hardwood material in the South as a whole is even greater than the total volume of pine or softwood material, and a surplus of hardwood as compared with a deficit in pine growth occurred in 1936. Consequently, the perfection of new manufacturing methods for utilizing hardwood material would permit still greater expansion of the pulp and paper industry. Chemical research activities, furthermore, indicate that entirely new products possibly may be made from wood. Southern forest resources and the southern woodpulp industry should therefore occupy a place of continually increasing importance in the economy of the region.

THE INTERTERRITORIAL FREIGHT-RATE PROBLEM AND THE SOUTH

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I

There is an interterritorial freight-rate problem because the country's dominant transportation agency, the railroad, has never developed into a national unity functioning for national purposes in the widest sense. The way in which our railways are organized, both physically and economically, adapts them primarily to the promotion of regional interests as against national interest. On the economic side, this situation arises from the fact that instead of having a national freight-rate structure devised to permit the widest possible flow of commerce, the country has been regionalized into five major territories and a number of minor regions for rate-making purposes. The major regions are: (1) Official or Eastern Territory which comprises roughly that area north of the Ohio River and a line running from Cincinnati to Norfolk, east of the Mississippi River, and south of the Great Lakes. This region has within its confines over half of the population of the country. The leading markets of the United States are found there. (2) Southern Territory which lies south of the Ohio River and the line from Cincinnati to Norfolk, and east of the Mississippi. (3) Southwestern Territory, found west of the Mississippi, east of the Rocky Mountains, and south of Kansas and Missouri. (4) Western Trunk-Line Territory which is north of the southwestern region, west of the Mississippi, east of the Rockies, and south of Canada. (5) Mountain-Pacific Territory which, as the name implies, contains the Rocky Mountain and Pacific Coast regions.

Tradition and custom played a large part in fixing the boundaries of these various territories. In the early days of the railroads

geographical influences, in the form of rivers, mountains, and lakes, played an important part in setting the patterns to which the regions now conform. Later, even though the rivers were spanned with bridges, the mountains pierced with tunnels, and track gauge and equipment were standardized, thereby permitting the roads of one region to become physically united and integrated with those of another, the old boundaries were retained.

Behind these territorial border lines the various railroad interests of the different regions carried on managerial policies and theories of rate-making designed to fit the particular traffic needs of the respective areas in which they operated. In the South, for instance, there were provided comparatively low commodity rates for moving outward the raw materials of the farm, the mine, and the forest. For manufactured goods, which were in a way nearly all luxury products, the carriers demanded relatively high class rates. This general method of making rates, i.e., high class rates and low commodity rates, in time became a characteristic of the South's customary scheme of rate-making.

The Official or Eastern Rate Territory encompasses the nation's most important industrial areas. Shippers there early sought and received rates relatively favorable to movements of manufactured products. That condition applies in Official Territory to this day and shippers of that region now enjoy the lowest rates on manufactured products, distance considered, of any section of the country.

The other regions aside from Official had, and still have, rate structures comparable to those in effect in the South, i.e., relatively low rates on raw materials with comparatively high rates on manufactured goods.

As long as shipments are only moving intra-regionally in these rate-making regions no particular problems present themselves because transportation charges are approximately the same to all shippers on a comparable distance basis. But, when traffic flows out of one region across the boundary lines into another territory, problems are often created because of the rate complexities arising from the varying methods of making rates. The different schemes of rates create rate disparities.[1] From these disparities in turn

[1] Statistical measurements of these disparities represent the so-called "interterritorial freight-rate differentials." As a freight-rate differential, in traffic parlance, is a stated

there arise problems which by indirection create trade barriers because they have the effect of hindering or impeding commerec among the several regions.

There may be rate troubles where any of these territories meet, but the most oft repeated complaints about the interterritorial freight-rate situation come from shippers who are handicapped in sending their goods to the important markets in the Eastern region. The South is no exception in this case, and the problem for it is chiefly concerned with securing more equitable rates for shipments into Official Territory.

II

The South's interterritorial rate situation is a practical problem which can be measured in dollars and cents. The freight tariffs of the country contain literally millions of rates for the many different commodities from possible origins to all the possible destinations. There are thousands of rates applicable alone to interterritorial movements from the South to other regions. Some of these latter rates are relatively low, as for instance, those applicable to many raw materials, some processed commodities, and a few manufactured goods. But there are also many comparatively high rates, particularly in the case of the class rates applying to manufactured goods. It is in these that one can discern most clearly the disparities in regional rate levels which are serious enough to affect and retard economic progress in the South.

From the great number and complexity of rates, one can select examples to illustrate the conditions which create the interterritorial freight-rate problem. Take, for instance, an interterritorial movement on first class from a southern point to a place in Official Territory as compared with a similar movement on the same class entirely in the Eastern region, as shown in Table I.

Some will say that no great volume of traffic moves on the first-class rates, relatively speaking. That is true, but in the changes which have taken place in our regional rate structures in the past decade and a half, the first-class rate is taken as basic with class rates lower than first and many important commodity rates linked

amount added to or deducted from a basing rate in making another type of rate, it will be seen that it is incorrect to speak of the differences represented by the disparities as "differentials".

to it by fixed percentages. The influence of the first-class rate is thus reflected throughout our rate structures. The example cited is, therefore, a representative illustration.

Take as the next illustration a comparison of rates on a specific product—cheese (Table II).

Twenty-three cents per 100 pounds does not seem to be so great, but it is a difference of $69 a carload against the southern shipper.

If a prospective manufacturer of metal kitchen cabinets were

TABLE I

COMPARISON OF FIRST-CLASS RATES

FROM	TO	MILES	RATE IN CENTS PER 100 LBS.
Meridian, Miss.	Indianapolis, Ind.	614	194
Syracuse, N. Y.	Indianapolis, Ind.	609	133
Disadvantage of Southern Shipper			61

Tariff authorities: B. T. Jones's 450-E, I.C.C. 3316; W. S. Curlett's 60, I.C.C. A-330.

TABLE II

CHEESE, IN CARLOADS OF 30,000 POUNDS

(Carload Minimum 24,000 Pounds)

Rates in Cents per Hundred Pounds

FROM	TO	MILES	RATE	DIFFERENCE IN	
				Cents	Percent
Shelbyville, Tenn.	Anderson, Ind.	389	80		
Milwaukee, Wis.	Cleveland, Ohio	390	57		
Disadvantage of Southern Shipper				23	40

Tariff Authorities: B. T. Jones's 450-E, I.C.C. 3316; B. T. Jones's 488, I.C.C. 2452.

considering the possibility of setting up a plant at Birmingham, Alabama, he would find this situation in looking over possible markets, as shown in Table III.

On a carload of metal kitchen cabinets, weighing 22,000 pounds, the prospective producer at Birmingham would have a disadvantage in reaching Columbus of $90.20 on a car in competition with a possible eastern producer located at Newark.

Some have heard, possibly, that shippers in Official Territory

can ship into the South on a parity of rates, or, in certain cases on a lower rate, mile for mile, than the rates paid by shippers within the southern region. The prospective manufacturer of metal kitchen cabinets considering Birmingham as a location for his plant would find it to be true from the following example given in Table IV.

TABLE III

Kitchen Cabinets, Metal in Carloads

(Carload Minimum Weight of 12,000 Pounds)

Rates in Cents per 100 Pounds

FROM	TO	MILES	RATE	DIFFERENCE IN	
				Cents	Percent
Birmingham, Ala.	Columbus, Ohio	595	136		
Newark, N. J.	Columbus, Ohio	604	95		
Disadvantage of Southern Shipper				41	43

Tariff Authorities: B. T. Jones's 450-E, I.C.C. 3316; W. S. Curlett's 60, I.C.C. A-330.

TABLE IV

Kitchen Cabinets, Metal, in Carloads

(Carload Minimum Weight 12,000 Lbs.)

Rates in Cents per 100 Pounds

FROM	TO	MILES	RATE	DIFFERENCE IN	
				Cents	Percent
Birmingham, Ala.	Johnson City, Tenn.	360	103		
Marion, Ohio	Johnson City, Tenn.	368	94		
Disadvantage of Southern Shipper				9	9.57

Tariff Authorities: F. D. Miller's 710-A, I.C.C. 321; W. S. Curlett's 60, I.C.C. A-330.

Thus the producer and shipper at Birmingham, on a car of metal kitchen cabinets weighing 22,000 pounds, would have a disadvantage in his own rate region of $19.80 when trying to market in Johnson City in competition with the producer from Ohio.

Many similar illustrations could be cited, not only for the South but also for the West. The examples given, however, should suffice to demonstrate the nature of the problem.[2]

[2] The reader interested in making other rate comparisons is referred to the following: *The Interterritorial Freight-Rate Problem of the United States*, published as House Doc. 264, 75th

III

The existing freight-rate matter in so far as it concerns the South is not the fundamental problem of the South in that it is the crux of all the region's troubles. It is rather a barrier in the path that leads to the solution of the South's ultimate problem which is that of finding ways and means to permit the people of the region to achieve a higher standard of living through a better use of their energies and faculties in utilizing the physical resources which are at hand. If ways can be found to attain this higher standard and a greater per capita money income can be achieved for the region, more of the things which an increased money income allows its recipients will be available to the people of the South. It will mean, for instance, more paint for houses, more education, more health service, more homes with running water, and many more things which are accepted as denoting a reasonable standard of living, but which too few people have in sufficient quantities to allow them other than a meager standard of living.

The South's productive effort has been traditionally weighted on the side of producing raw materials and semi-finished products. The commodities produced by such an economy simply do not bring prices proportionate to those which manufactured products can command. As a result, the regional economy of the South has not brought to its people the benefits which accrue to those more concerned with industry and manufacturing. The South needs to develop industries for which it has natural advantages in order to offset its overstressed raw-material producing economy. The region has the labor and resources to make progress in attaining this end, but when the actual or potential manufacturer considers the opportunities which the region offers, he is in too many important cases discouraged from venturing into further or new production by reason of the existence of the freight-rate situation. He sees that profitable outlets for his goods will be limited to a considerable degree to local markets, which are in an area of relatively thin population and low purchasing power.

Congress, 1st session; *Supplemental Phases of the Interterritorial Freight-Rate Problem of the United States*, printed as House Document 271, 76th Congress, 1st session; *Freight-Rate Discriminations*—Hearings before a Sub-Committee of the Committee on Interstate Commerce, U. S. Senate, 76th Congress, 1st session.

When he attempts to dispose of part of his goods in Official Territory, where 51 per cent of the national population resides, the rate citations given above for cheese and metal kitchen cabinets illustrate what might happen to him. If he ships by rail, he has to keep out of the markets in Official Territory or take an absorption in freight charges to make a sale in that area. If the southern producer seeks markets out of the South in rate regions other than Official, he may find fewer customers and even higher rates than to Eastern Territory. The manufacturer is disheartened on the score of accessibility to national markets unless he can find some way of offsetting his disadvantage in reaching important selling areas. The way by which he does this is to avail himself, when possible, of highway or water transportation.

The cumulative effects of this discouraging and discriminatory condition extend throughout the South's social and economic structure. The people of the region are hindered in securing the benefits which they could obtain by converting their own raw materials into higher types of goods, and the effects of this impediment are reflected in the very lives and activities of the people. The transportation situation operates to influence their way of earning a living whether they like it or not. The majority of the people must stick to farming, mining, and forestry, or closely allied activities, with little choice, unless they emigrate to other sections. There has been much migration, needless to say, and the unfortunate part of it is that some of the South's finest technically trained young people too frequently leave the region to find a better field for their talents in the industrial developments of other areas. The situation affects everyone in the South even though the effects are difficult to identify in each and every case. It partially explains some of the troubles of the agrarian population. A farm tenant, for instance, may have no choice but to continue to be a tenant. Farming could conceivably be distasteful to him, but he is tied to it because there may be no mines near him where he can become a miner, no timber left where he can become a sawmill employee, no factory where he can become an industrial worker.

The region is bound to this raw-material economy. Under conditions as they have been this will mean more exhausted soil,

more worked-out mines, more cut-over timber lands. If this heavy extraction goes on, what will be left to recompense the people for their lost resources? What will remain for the future citizens of a region with an increasing population?

IV

One naturally wonders why such a situation has been allowed to develop. The answer is that it is a form of transportation discrimination which evolved upon the nation. It came into focus and was bound to arise as an issue with the emergence in recent years of industrial aspirations in the South and West. Prior to that time regional discrimination was not a matter of serious concern, and as a consequence, there are not in our transportation laws any definite or specific provisos aimed at preventing regional or territorial discriminations as there are provisions forbidding other types of discrimination; viz., discrimination between places, persons, and commodities.

A definite phase of this evolution of the interterritorial rate situation into a current problem springs from the fact that in developing our freight-rate structures too much emphasis was placed on the specific rights of individual shippers and carriers with too little attention given to the broad effects of rates on regions and their economic welfare. Self-interest is generally behind special rate litigation before the Interstate Commerce Commission, and it is difficult in such situations to have the general public definitely represented, because there is usually no unbiased voice to become its advocate. It is true, of course, that the persons immediately concerned with rates are shippers and carriers, but these groups lost sight of the fact that the influence of rates, both individually and en masse spread beyond those directly concerned and have an impact on both regional and national economies.

Efforts are being made to bring about an elimination of the problem. In the so-called *Southern Governor's Case*,[3] which asked for a readjustment of rates on a group of commodities, the Interstate Commerce Commission ordered lower northbound rates on about a dozen commodities, including stoves, stone, plumbing goods,

[3] I.C.C. Docket 27746, *State of Alabama, et al.* vs. *The New York Central Railroad Company, et al.*, decided November 22, 1939.

fire hydrants, and papetries. More important, however, than the actual savings to be made in the adjustment of rates on these few commodities was establishment by the commission in the decision of the principle that reasonably uniform rates should apply from adjacent producing areas to common markets. This finding upholds the South's contention that it has been discriminated against by an artificial freight-rate barrier. Furthermore, on its own motion, the commission has instituted a general investigation of all class rates applying on movements in territories east of the Rocky Mountains.[4]

Unfortunately, however, the *Southern Governor's Case* was strongly opposed and in the investigation of class rates there will undoubtedly be great opposition offered against possible readjustments of interterritorial class rates. The opposition comes naturally from interests which fear that they will be harmed. Among these may be counted spokesmen for some of the leading southern carriers. These latter are either unduly afraid of the effect of any changes on their revenues, or they fail to grasp the full significance of the problem to the region's economy when they state that southern shippers already have favorable rates. By this they mean the South has satisfactory rates on such products as logs, lumber, pulpwood, iron ore, pig iron, slag, phosphate rock, coal, cotton, scrap iron, coke, cast iron pipe, and sugar. Only the last two can be considered finished products. The others are either raw materials, or semi-finished goods, the very types of commodities which have constituted a drain upon the resources of the region.

Those opposing change in the existing interterritorial rate situation seek to prove that present rate-making territories and the charges used therein are justified by existing transportation conditions. A cardinal argument advanced by them to justify or explain the relatively low rates of Eastern Territory is that traffic densities within Official Territory warrant the rates now used there, and that other regions not having comparable densities should not enjoy equal rates. Traffic density in the East on the whole is heavier than in the South and West, but the traffic density argument has elements within it which lessen its value to justify existing conditions, because the increased volume of business oc-

[4] Class Rate Investigation 1939, I.C.C. Docket 28300.

casioned by heavy traffic requires added tracks, more equipment, and greater terminal facilities. In a region having heavy concentration of industrial development and many large cities, the provision of such facilities is expensive, and tends to increase the unit cost of performing transportation service.

Then too, an analysis of traffic density itself shows that it is not uniform and that it does not conform to the rate-making regions as delimited by their existing boundaries. Parts of Official Territory, for example, sections of New England and Michigan, have a low traffic density, but those sections enjoy many of the benefits and relatively low rates of Official Territory. Kentucky has a high traffic density, but that state is in Southern Territory. And, to take a rather exaggerated example, to show how the traffic density argument may sometimes be deceptive, the state of Wyoming has a high traffic density, although that state actually has high transportation charges and derives no particular benefit from its heavy volume of traffic.

Furthermore, the traffic density argument is not entirely consistent with the factor of transportation costs, a matter which has been stressed too little, possibly because cost of performing transportation service has had so little to do with actual and practical rate-making.

The Bureau of Statistics of the Interstate Commerce Commission has thrown much light on the subject of relative costs of rendering steam railway transportation service. Table V below comes from one of the bureau's studies on this subject.[5]

The figures show that costs of performing transportation service are lowest in the South, somewhat higher in the East, and highest in the regions west of the Mississippi. Considered altogether, however, it will be seen that costs of rendering rail transportation tend to approach a common figure for the country.

The South has good grounds for hoping that the freight-rate problem will be corrected. Certain phases of the situation are so indefensible as to be beyond serious argument. The South can ask with justice that it be given a parity and equality of treatment. It could not and should not, of course, ask for any favoritism or

[5] *Territorial Variation in the Cost of Carload Freight Service on Class I Steam Railways in the United States for the Calendar Year—1936*, Statement 3812, March 1938, p. 15.

preference, as that would be contrary to good economics and against transportation laws.

During the past session Congress actively concerned itself with the matter of seeking a correction of the interterritorial rate situation. Bills, containing provisos looking to that end, were introduced into both the Senate and the House. Extensive hearings were held on the subject by both bodies.

The interterritorial freight-rate differences can, except where justified plainly by substantial differences in transportation conditions, be eliminated from our economy. This can be done gradually without disturbing effects to any region. By the exercise of economic statesmanship, it will be possible to develop a

TABLE V

COMPARISON OF RAILWAY OPERATING COSTS

Relative Costs (Eastern District Costs = 100)

TERRITORY	1936		1933		1928*	
	Gross ton-mile basis	Loaded car-mile basis	Gross ton-mile basis	Loaded car-mile basis	Gross ton-mile basis	Loaded car-mile basis
Eastern District	100.0	100.0	100.0	100.0	100.0	100.0
Southern District	95.8	92.3	96.2	93.8	99.3	98.7
Western District	107.5	105.4	110.1	107.8	113.0	110.4

* 1928 ratios restated to give effect to apportionment between terminal and line-haul by individual railways instead of by railway groups as in the 1928 study. The restated figures differ only slightly from the original figures.

freight-rate structure designed for national requirements as against regional needs. It is unconvincing to argue that a more equitable system of making rates is totally impractical and visionary. One heard the same sort of arguments raised against proposals for a central banking system and against bank deposit insurance on a national scale.

Much can be done to bring rate levels of the various regions more nearly into harmony. Classification of freight can be greatly simplified and standardized, and the first three classes which carry much less than carload traffic can be made uniform. Some rates might have to be raised, but others could be lowered. The revenues of the carriers, therefore, need not be unduly disturbed.

Effectuation of the much talked of consolidation of railways would mark a positive advance in the direction of elimination of the interterritorial rate question because certain competitive influences which are partially responsible for the existence of the problem would be removed.

Such steps as these, or other procedures which could be worked out, would eliminate the interterritorial rate matter. This will require time, of course, because it must be admitted that a hasty revision of rate structures would be harmful and undesirable. In a reasonable time, however, the problem could be disposed of and a wider scope given to our internal commerce. The South, needless to say, with its present aspirations would share in that eventuality.

RECENT DEVELOPMENTS CONCERNING THE SOUTH'S FREIGHT-RATE PROBLEM

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I

Recent months have seen several developments that apparently mark important steps toward a solution of the present interterritorial freight-rate problem as it affects the South. The most important of these developments is the decision made by the Interstate Commerce Commission in the proceeding popularly known as the *Southern Governors' Case.*[1]

A second development is the interest shown by a number of members of Congress. During the first session of the present Congress hearings[2] were held, and legislation looking to the correction of maladjustments in the freight-rate structure of the country was passed by both chambers.

A third development is the announcement by the Interstate Commerce Commission of a general investigation into the class-rates and the classification of freight in the regions of the United States lying east of the Rocky Mountains. This is probably the most far-reaching class-rate investigation that has yet been announced by the commission.

These developments deal with a problem that is as important as any with which the South has had to struggle in the past few decades. The problem is this: industrial producers in the South must generally pay a higher level of freight rates, mile for mile, to market manufactured goods in the rich and populous market area north of the Ohio and Potomac Rivers than is charged the in-

[1] I.C.C. Docket 27746, *The State of Alabama, et al.* v. *The New York Central Railroad Company, et al.*

[2] See *Freight Rate Discriminations*, Hearings before a Subcommittee of the Committee on Interstate Commerce, U. S. Senate, 76th Congress, 1st session. Similar hearings were held before the Committee on Interstate and Foreign Commerce of the House of Representatives.

dustrial producers within that favored area. The economic and social consequences of this situation on the South are described in another article in this issue of the *Journal*.

One may well ask why the South has been saddled with a relatively high level of rates. The correct answer is that the present rate structure is largely the outgrowth of tradition. The answer of the average traffic man would be that the South has high rates on manufactured goods because of adverse transportation conditions or because traffic density (volume of traffic) is low on railroads in the South.[3] This widely accepted answer is open to question. Traffic density has relatively little significance when taken alone. To give an accurate picture, it should be examined in connection with other cost factors. Unit cost cannot decline indefinitely as traffic increases because of the rise in variable costs. After the point of best utilization of plant, traffic density will cause an increase in total unit cost.

Although the Interstate Commerce Commission has recognized that differences in transportation conditions probably do not fully justify existing differences in rate levels, it has apparently assumed these conditions to be somewhat more favorable in Official Territory than in Southern.[4] But a recent study by the Bureau of Statistics of the commission shows the reverse to be true in regard to the cost of handling carload freight traffic.[5]

This study shows relative costs in the Southern Region to be 95.5 as compared with 99.3 for Eastern District, on a ratio to United States average taken as 100. Evidently costs are substantially higher in the Eastern District than in the Southern District; indicating that traffic density is a criterion that, when taken alone, does not reflect the cost of carrying carload freight in the various territories of the United States. The relative cost indices just cited indicate that the higher traffic densities of Official Territory no longer operate to lower total unit costs but on the contrary now operate to increase them.

[3] A typical example of this argument was made by E. R. Oliver, vice-president of the Southern Railway, in an address, "Southern Freight Rate Differentials and Their Effect upon Southern Industry," before the Institute of Citizenship, Atlanta, Ga., Feb. 15, 1939.

[4] See 156 I.C.C. 134 and 200 I.C.C. 104.

[5] Statement No. 3812, *Territorial Variation in the Cost of Carload Freight Service on Class I Steam Railways in the United States for the Calender Year—1936*, March 1938.

II

The complaint in the *Southern Governors' Case* was filed May 26, 1937, by the members of the Southern Governors' Conference, including the governors of the states of Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee.

The relief sought was given in the words of the Hon. Bibb Graves, a witness in the case and at that time governor of Alabama:[6]

"... we are asking the Commission in this case not only to grant the relief sought on these particular commodities named in the complaint, but to lay down in its decision in this case the rule that rates from the Southeast into Official Territory shall hereafter be made . . . so that we may have a parity . . . with the rates between points in Official Territory on like commodities."[7]

It was alleged that the railroad freight rates applying on the articles named in the amended complaint from points within the complaining states to destinations in Official Territory are unreasonable, unjustly discriminatory, and unduly prejudicial to the localities within, traffic originating in, and shippers within the eight complainant southern states; and that rates applying on like goods moving within Official Territory are unduly preferential to the traffic, and to the shippers and receivers residing in that territory.[8] It was claimed that these rates are in violation of Section 3(3) of the Interstate Commerce Act as well as contrary to Section 15a(2) of the act. Further, it was alleged that the

[6] Governor Graves' participation in the case is rather unusual. As governor of Alabama he was a party to the complaint in addition to being a witness. After the expiration of his term as governor, he was retained as an attorney in the case for the Southern Governors' Conference.

[7] *Abstract of Complainants' Testimony*, Vol. II, I.C.C. Docket 27746, p. 2.

[8] The amended list of commodities included: coal and wood stoves, gas stoves, heaters, and furnaces; stone; cast iron pipe fittings; iron body valves; fire hydrants; brass pipe fittings; brass cocks and valves; soapstone and talc (included because the report embraced Investigation and Suspension Docket 4400); enameled iron or steel plumbers' goods, in carloads; papeteries, in less than carloads; cast iron hollowware; fireplace fixtures; conduit outlet boxes; junction boxes; switch boxes, outlet plates; boots and shoes; paper cones, cores, tubes, and school tablets; drugs and medicines; metal furniture; mattresses; canned oysters, shrimp, and vegetables; cordage and binder twine; excelsior and excelsior pads; and chinaware.

defendant rail lines by concerted action have maintained the rates with which the complaint deals, in violation of the anti-trust laws of the United States.

A number of state commissions, associations, industries, and shippers in the South intervened to support the complaint of the southern governors. Interveners in opposition included the New England Governors' Railroad Freight Rate Committee (formed of the governors of the six New England states), the states of New York, Delaware, New Jersey, Illinois, Ohio, Michigan, Wisconsin, and Indiana as well as various shippers, associations, and state commissions in the North.

The defendants consisted of two groups of railroads. One group operates lines within the South and from the South to the border of the North. The lines of the other group are within the North. The attitudes of the two groups differed sharply.

The evidence presented on both sides fell into three groups: evidence relating to industrial development in both regions; evidence concerning rates within and between northern and southern territory; and evidence concerning freight transportation costs for the South and the North.

Evidence presented by the southerners showed that the South has extensive natural resources and that certain types of industrial development have proceeded rapidly in the area. Considering the natural resources available in the South as compared with other areas, industrial development in the South was shown to be relatively backward. Statistics were introduced to show that the manufactured products of the South are generally lower in value and are finished in lesser degree than those of the North. Other figures showed that income and value derived from manufacturing are lower in the southern than in the northern states.

It is interesting to note from the evidence presented regarding income from manufacturing that in 1935 Alabama and South Carolina contributed only .7 per cent each of the national total, while both Massachusetts and New Jersey contributed over 5 per cent each—an instructive bit of information for those who claim that the South has for years been luring large segments of northern industry southward despite the difference in freight rates.

Data were given comparing the position of manufacturing in the

South, with that of a number of northern states and with that of the United States. Between 1923 and 1935, manufacturing in the South showed a relatively greater gain than it did in 11 northern states,[9] or in the United States as a whole. Figures on the manufacturing of certain articles named in the complaint show that only a small part of these industries are in the South when compared with the North. But the industries in the South grew more rapidly in the years following the World War and declined less rapidly during the depression years, according to the evidence presented.

Following the general economic evidence pertaining to industrial development, voluminous evidence concerning rates was introduced. It was recounted that until recently the South had very little traffic that moved on class rates and that traffic moving in large amounts moved on commodity rates, which are on equal or lower levels than class rates on similar articles in the North. The class rates alone are not indicative of the general rate level in the South. It was pointed out that class rates apply on most of the traffic moving within the North and reflect the general rate level there.

In regard to rates applying between the South and the North, it was shown that the class rates are high when compared with those applying within the North. Most of the traffic moving on these class rates consists of valuable manufactured goods of the North destined for the South. Of the north-bound traffic, only a small part is high-value manufactured goods subject to class rates; most of it is low-value freight moving on commodity rates.

To encourage industrial development in the South, southern railroads, before the World War, began to establish rates equal to northern rates from producing points in the South to northern markets on goods competitive with those produced in the North. This policy met no opposition until about the time federal control of railroads was terminated. Since then, however, the northern roads have insisted successfully that rates from the South to northern markets on such goods be kept on higher levels than the rates on like products within the North. The success of the northern carriers in this respect was accounted for by their being the carriers

[9] Me., N. H., Vt., Mass., R. I., Conn., N. Y., Del., N. J., Pa., and Md.

on whose lines the destination points were located, which gave them control over the rates to most of the points within the North.

It was stated that the class rates applicable within the South and between the South and the North are on a higher level than the class rates applying within the North. Prior to the general increase of 1937 the first-class basic scale within the South averaged about 139 per cent of that in the North.[10] On some commodities southern railroads have been able to publish northbound commodity rates on a level substantially as low as in the North. Such rates apply when shipment is made to those points in the North to which the southern carriers control rates. These points include border points between Official and Southern Territory and destinations on and west of the lines of two railroads: the Chicago, Indianapolis, and Louisville Railway Company extending from Chicago to Indianapolis; the Cleveland, Cincinnati, Chicago, and St. Louis Railway from Indianapolis to Cincinnati.

After the general evidence had been discussed in the commission's report, evidence concerning each of the articles named in the complaint was taken up in detail. The evidence showed that the South usually was at a disadvantage in reaching markets in the North when comparisons were made between rates within the North and rates from the South to northern points.

Statistical analysis of the cost of transporting freight was presented by the southern governors for the Great Lakes, New England, Central Eastern, and Southern Regions for the calendar year 1937. In preparing this analysis, this procedure was used: (1) freight service operating expenses were divided into line-haul expenses and other than line-haul expenses, including terminal costs; (2) the cost was figured for transporting an average carload of freight for an average haul in each region (including an allowance for taxes, rent, and an interest return of 5¾ per cent on the value of property used for transportation service); (3) this average cost, including taxes, rents, and interest on investment, was figured for a 200-mile haul in each of the four regions and in Eastern District, which is approximately Official Territory minus Poca-

[10] The 139 percentage agrees with the figures shown in *The Interterritorial Freight Rate Problem of the United States*, House Doc. 264, 75th Congress, 1st Session, p. 13.

hontas Region.[11] The comparison between costs in Eastern District and Southern Region is shown in Table I.

The results shown by Table I were then adjusted by the complainants to allow for the criticism that the costs are not based on equal carload weights or the same percentage of empty hauls. Table II shows the results obtained upon using a net load per car

TABLE I

Carload Freight Service Cost—Unadjusted

COST IN 1937 PER CARLOAD HAULED 200 MILES	EASTERN DISTRICT	SOUTHERN REGION
Road haul cost	$25.49	$24.88
Yard cost	11.36	8.76
Total operating cost	36.85	33.64
Taxes, rents, and $5\frac{3}{4}$% on rate-making value	18.90	16.55
Grand total	55.75	50.19

Source: Report of the Interstate Commerce Commission in Docket No. 27746 (mimeographed), sheet 53.

TABLE II

Carload Freight Service Cost—Adjusted for Empty Haul

COST IN 1937 PER CARLOAD OF 27 TONS HAULED 200 MILES	EASTERN DISTRICT	SOUTHERN REGION
Road haul cost	$24.90	$26.03
Yard cost	11.36	8.76
Total operating cost	36.26	34.79
Taxes, rents, and $5\frac{3}{4}$% on rate-making value	18.60	17.12
Grand total	54.86	51.91
Percentage of Southern Region cost	105.70	100.00

Source: Report of the Interstate Commerce Commission in Docket No. 27746 (mimeographed), sheet 53.

of 27 tons, 23 tons as tare, and the empty haul as 56 per cent of the loaded haul.

The commission stated that even with revision in the length of haul or percentage of empty haul, the relative position of Eastern District and Southern Region "apparently" would not be markedly changed. After years of clinging to the belief that transportation costs in Southern Territory are higher than in Official Territory,

[11] The average haul in Southern Region in 1937 was 200.8 miles.

the Interstate Commerce Commission is suddenly convinced that the cost of transporting freight in the South is no higher than in the North. How this fact escaped recognition years ago is beyond the realm of any casual explanation.

It was admitted by the commission, however, that the cost analysis is subject to some valid criticism, but it was held that the objectionable characteristics affect equally the results for both Eastern District and Southern Region so that the showing of relative costs is not greatly disturbed. The statement was made that the lower freight traffic density in Southern Region would, if taken alone, indicate higher costs in that region. However, other factors, such as smaller capital investment and lower terminal costs "appear largely" to offset the lighter density.

The southern governors in stating their position contended that average transportation costs are no higher in the South than in the North; and that the northern railroads' portion of northbound hauls, and hauls wholly within the North, are both handled under the same conditions. Therefore, northbound interterritorial rates higher, mile for mile, than rates within the North are prejudicial to southern shippers, preferential to shippers of the North, and an obstacle to the free movement of goods contemplated by the Interstate Commerce Act. The southern governors cited commission precedent for the use of average transportation costs in territorial rate comparisons, and for the approval of rates on hauls from South to North equal distance considered, to those on hauls wholly within the North.[12]

The southern railroads were, on the whole, sympathetic to the complaint of the southern governors. These carriers stated that southern producers deserve rates to the North comparable with the level within the North on articles on which keen competition is met within the North, and that they are anxious to join in establishing rates on the northern intraterritorial level. Such rates are not in effect at present because northern railroads will not agree to their publication.

The southern railroads criticized the cost study presented by

[12] See the decisions on *Brick and Clay Products in the South*, 88 I.C.C. 543; *American Distilling Company*, v. *A. C. & Y. Railway Co.*, 144 I.C.C. 633; *Krupp Foundry Company* v. *Southern Railway Co.*, 148 I.C.C. 743; *Muscle Shoals White Lime Company* v. *A. & B. B. Railroad Company*, 205 I.C.C. 273; *Coke from Alabama and Tennessee to Central Territory*, 208 I.C.C. 281 and 215 I.C.C. 384.

the complainants and claimed that "cost of operation and other traffic and transportation conditions in the South are less favorable than in the North," the result being that a higher level of rates is necessary within the South if southern railroads are to survive.

The northern interests opposed the complaint of the southern governors in all respects. They made much of the commission's decisions in the Southern Class-Rate Investigation in which interterritorial rates in relation to the prescribed class rates were adopted. Admitting that it is true that the class-rate investigation covered class rates only, it was asserted that the rates were based on distance, thus making them a standard for properly determining a commodity rate structure.

The northern carriers did not claim that the cost of transporting freight in the South is higher than in the North. In fact, they even stated that in determining interterritorial rates they give no weight to cost of operation or to traffic or transportation conditions. The claim is indeed remarkable that in operating railroads ostensibly for profit no weight is given to costs in arriving at interterritorial rates.

The northern railroads contended that the rates under attack have not been proved to be prejudicial and if the presence of prejudice had been proved, the commission could not give relief because the railroads that take part in moving the interterritorial traffic in question do not control the intraterritorial rates within the North.

The northern interests stated that those decisions of the commission in which interterritorial rates from the South to the North were prescribed on a level equal to that of rates on like traffic within the North were based on evidence showing (1) that the rate level on such commodities within the South was equal to or lower than that applying within the North; (2) that the traffic moved northward over rail lines with a traffic density comparable with the average traffic density within the North; (3) and that a higher level of rates, mile-for-mile, than that applying in the North would probably interfere with the unhindered movement of traffic contemplated by the Interstate Commerce Act. It was insisted that evidence presented in this case does not meet the above-named criteria.

The New England Governors' Committee claimed that the

articles, the rates of which are involved in this case, move freely into Official Territory and that the southern interests have a natural advantage in the costs of production and a natural disadvantage because the rail transportation of the South requires a relatively higher level of rates to support it.

A number of the northern interveners insisted that the evidence presented does not warrant the establishing of a general principle that rates from the South to the North should be on levels equal to the rates within the North. They also insisted that each rate or group of rates must be considered as a separate problem and must be taken up with the principle in view that the transportation conditions in the South justify higher rates than those within the North. This was claimed to apply particularly to manufactured goods, because the distribution of the traffic burden of the two territories requires higher than northern rates when transportation in the South is involved.

Other interveners contended that the complaint is based upon the desire of the South to put itself in a better position to meet business competition in the North and that it is not the function of the commission to neutralize natural advantages of other localities so that the southern complainants may be able to meet commercial competition within the North.

The New England governors asserted that the need of revenue of the southern roads would require that a relatively greater share of the interterritorial rates sought be given the southern roads, causing the northern roads in effect to collect a subsidy for southern shippers from northern ones.

In conclusion the northern interests claimed that the evidence requisite to adjusting the rates on which complaint is made had not been put into the record. To determine the facts properly, it was suggested that the commission initiate an investigation and secure the necessary information.

The report of the commission in the case generally favored the southern governors. The decision, written by Commissioner Lee, was announced on November 30, 1939. The margin of approval was very narrow, with five commissioners favoring the report and four opposing it. Two commission members ap-

pointed since the complaint was filed did not participate in the disposition of the case.[13]

In handing down a decision favorable to the South the majority members stated that "the desirability of rate structures providing reasonably uniform levels of rates from adjacent producing sections of the country to common markets is not open to serious question." Even though differences in transportation charges to market are absorbed by producers in a territory, such absorption contributes to retardation of that territory.

The first question decided was that differences in production costs of commodities cannot be considered in establishing rates, and the commission cannot prescribe rates that will enable shippers to offset such economic disadvantages.[14]

In deciding to what extent the findings in the Southern Class-Rate Investigation should be given weight, the commission stated that the Southern Class-Rate Investigation removed incongruities from the rate structure and that no findings with regard to specific commodity rates were made. No inference can be drawn as to the difference in the general rate levels or transportation conditions prevailing within the North and the South by comparing the class-rate levels of the two territories. The class-rate relationship is not followed in prescribing rates from the South to the North. The evidence presented in each case is the basis for action.

Concerning the commodities considered in this case which have been dealt with in previous rate cases, cognizance was taken of the fact that there have been many changes in recent years in both the North and South as well as throughout the whole United States in transportation and economic conditions.

According to the decision, the northern interests did not present a sound contention in saying that in order to give reason for prescribing a parity of rates from the South to the North with those within the North, it must be demonstrated that the rates within

[13] The majority consisted of Lee, Idaho; Rogers, Tenn.; Caskie, Ala.; Aitchison, Ore.; and Splawn of Tex.; the minority was composed of Eastman, Mass.; Porter, Ia.; Miller, Pa.; and Mahaffie, D. C. Commissioners Alldredge, Ala.; and Patterson, N. D., did not take part.

[14] The rule was restated from *Cotton, Woolen and Knitting Factory Products*, 211 I.C.C. 692, at p. 786.

the South on the commodity under consideration were equal to or lower than those applying within the North; that the movement of the commodity northward was on railroads having a traffic density comparing favorably with average traffic density in the North; and that a level of rates higher than that applying within the North would probably interfere with the free movement of traffic contemplated by the Interstate Commerce Act.

Concerning the question of divisions between the northern and southern railroads of the interterritorial rates on the articles dealt with in this case, it was held that the question had been settled previously. It was found that interterritorial rates that are not higher, distance considered, than similar rates within the North should be divided on the basis of distance of movement in each of the territories.[15]

It was recognized that the average cost of transporting freight is not controlling in fixing rates on individual commodities. On the other hand, it was stated that ascertaining the cost of transporting individual items is impossible. Therefore, it was held that consideration must be given to evidence indicating cost. After enumerating a formidable group of items to be considered, the commission concluded that the cost of moving the articles in question from the South to the North, compared with the cost within the North, does not alone give justification for higher levels of rates northbound than prevail within northern territory. The cost to the carriers for performing the service is, it was reiterated, not controlling, although it is very important.

In view of the evidence presented, it was held by the commission that certain of the articles mentioned in the complaint are not moving freely from the South to the North. On these articles rates for the future were found unreasonable to the extent that they exceed approximately the same levels on similar traffic within the North.[16] The fact that the southern producers move the

[15] *Divisions of Rates, Official and Southern Territories*, 234 I.C.C. 175.

[16] The commodities on which the present interterritorial rates were found unduly prejudicial, or both unreasonable and unduly prejudicial, are: coal and wood stoves, gas stoves, heaters, and furnaces; stone; cast iron pipe fittings; iron body valves, fire hydrants; brass pipe fittings; brass cocks and valves; soapstone and talc; enameled iron or steel plumbers' goods, in carloads; and papeteries, in less than carloads.

On the following the present interterritorial rates were found not unlawful: cast iron

products into the North by absorbing differences in transportation charges does not detract from the disadvantage suffered.

It was found that the northern carriers which participate in the interterritorial rates do, in fact, control the northbound interterritorial rates with a few exceptions; also, that southern carriers desire to maintain these rates on the same, or approximately the same, levels that apply within the North. This being the situation, the northern railroads should be required to join them in such rates.

Commissioner Eastman, in a dissenting opinion in which he was joined by Commissioner Porter, made a statement that the case has become a political issue. While he did not state that his colleagues have succumbed to political pressure, it is unfortunate that he intimated as much by specifically excepting from criticism counsel conducting the case and the actual producers of the South. He warned that nothing will speed the ruin of the commission more quickly than the disease of sectionalism.[17]

Eastman criticized the cost evidence on the grounds that the figures do not apply to interterritorial traffic, nor is any attempt made to so apply the cost analysis.

As to the elements that are given controlling weight in the decision, Eastman stated that they are not given directly but must be inferred from statements found throughout the majority report. According to him, that which the majority terms "freedom of movement" appears to be the controlling test. He stated that he could not understand the basis on which some of the articles involved in the complaint are given lower rates, while others are denied them. He remarked that the rates contested are on a very limited number of items, considering that the plea is from eight southern states and the industries therein.

Commissioners Miller and Mahaffie, in dissenting, stated that the complaint should be dismissed for lack of proof. They called

hollowware, fireplace fixtures, conduit outlet boxes, junction boxes, switch boxes, outlet plates, boots, shoes, several paper articles, drugs, medicine, metal furniture, mattresses, canned oysters, canned shrimp, canned vegetables, cordage, binder twine, excelsior, excelsior pads, and chinaware.

[17] It is interesting to note that with the exception of Commissioner Porter of Ia., the dissenting commissioners are from Official Territory; while the majority was made up of commissioners from other rate territories.

attention to the numerous decisions of the commission in which higher rates were prescribed or approved from the South to the North as compared within the North, stating that some of these decisions deal with articles involved in the complaint.

Whether the case will have any far-reaching effect on interterritorial rates from the South to the North remains to be decided in the future. Examination of the decision shows, however, that the majority did not lay down, as asked by the southern governors, a rule that all interterritorial rates applying from the South to the North should be on the same level as the northern intraterritorial rates.

As far as industrial production in the South goes, it appears that the commission has merely added a number of relatively unimportant items to the group of products which is already moving to the North on the same level as that which prevails within the North. Certainly such a ruling does not entirely remove the freight-rate barrier to industrial development in the South.

The most important finding in the case is the recognition that the average cost of transporting freight in the South is "apparently" no higher than in the North. Although, as the commission stated, this is not controlling, it will probably prove an important wedge for lower northbound interterritorial rates in the future. Another important point is recognition by the commission that northern carriers do, for the most part, exercise control over the interterritorial rates from the South to the North, bringing out in the open a condition that has existed for a number of years.

The effective date of the commission's orders in the *Southern Governors' Case* was originally set for March 1, 1940, but at the request of the northern group it has been postponed to April 1, before which date petitions will probably be filed by the northerners asking a rehearing of the case.

III

The proposed legislation introduced into the first session of the Seventy-sixth Congress to correct the present interterritorial freight-rate situation was of two general types. One type has been directed toward rate making by legislative action, an example

of which is the bill proposing to put a "destination rule" into the law, which rule would forbid freight rates being made from one territory into another territory on a higher level than that prevailing in the territory of destination.

Another type of legislation proposed to Congress is that in which no definite rate-making rule is proposed but in which the Interstate Commerce Act would be amended so as to specify there shall be no discrimination against any region, territory, or sub-territory of the United States. At the present time Section 3 of the act specifies there shall be no discrimination against certain geographic sub-divisions of the country, but neither region, territory, or sub-territory is included.[18] This latter type of legislation that establishes policy for the commission to follow is superior to legislation that directly makes rates.[19]

Two of the leaders in the movement for equalized freight rates for the South, Senator Lister Hill of Alabama and Representative Robert Ramspeck of Georgia, introduced during the first session of the Seventy-sixth Congress a joint resolution[20] which would direct the Interstate Commerce Commission to make an investigation of certain rates within and between the regions of the country, where such investigation is requested, for the purpose of correcting unjust, unreasonable, and unlawful rates where they exist. The resolution would also amend Section 3 (1) of part I of the Interstate Commerce Act by adding "region," "district," and "territory" to the group of persons, things, and geographical units against which it is illegal to show undue or unreasonable preference concerning freight rates.

This resolution was offered to the committee on legislation of the Interstate Commerce Commission, headed by Commissioner Joseph B. Eastman. The committee did not offer objection to

[18] Section 3 (1) now provides "It shall be unlawful for any common carrier subject to the provisions of this Act to make, give or cause any undue or unreasonable preference or advantage to any particular person, company, firm, corporation, association, locality, port, port district, gateway, transit point, or any particular description of traffic, in any respect whatsoever or to subject any particular person, company, firm, corporation, association, locality, port, port district, gateway, transit point, or any particular description of traffic to any undue or unreasonable prejudice or disadvantage in any respect whatsoever."

[19] For a discussion of the disadvantages of legislative rate making consult D. Philip Locklin, *Economics of Transportation*, p. 206.

[20] See S. J. Res. 99, 76th Congress, 1st session.

the resolution, which action is tantamount to approval of the measure.

The provisions of the joint resolution were written into the general railroad bill, S. 2009, known as the Wheeler-Truman bill, by the Senate Committee on Interstate Commerce. The bill was passed by the Senate May 25, 1939. The House of Representatives passed the bill later in the session, retaining the provisions of S. J. Res. 99 as written in the bill in the Senate. The House, however, amended other features of S. 2009, thus necessitating that a conference committee be appointed to reconcile the differences between the two bills in order that it may be placed before the two houses for final passage. The bill remained in conference during the first part of the third session of the Seventy-sixth Congress. Whether the provisions of the joint resolution will be unaltered when the bill becomes law is open to conjecture.

It has been predicted that members of Congress from the South and West, the sections adversely affected by comparatively high freight rates on manufactured articles, will make vigorous attempts to have the provisions of the joint resolution introduced by Hill and Ramspeck, or an equivalent, included in any major transportation measure passed during the third session of the present Congress.

Impetus probably was given to the passage of legislation dealing with the interterritorial freight-rate problem by President Roosevelt in his message on the state of the Union in which he said that the freeing of large areas from restricted transportation discriminations was an item of great public interest.[21]

IV

During the summer of 1939 the Interstate Commerce Commission instituted on its own motion an investigation of class rates, both intraterritorial and interterritorial, between all points in the part of the United States lying roughly east of the Rocky Mountains.[22] This proceeding is known as *Class Rate Investigation*,

[21] *Congressional Record*, January 3, 1940, p. 8.

[22] An exact delimitation of this area may be found in the *Federal Register*, August 3, 1939, p. 3520.

1939, I.C.C. Docket No. 28300. It applies to the transportation in interstate commerce of property by rail or water, or partly by rail and partly by water. Judging by the amount of time taken in the past to investigate the class rates in single rate territories, it should take a number of years to complete this investigation. The task of determining the lawfulness of all the class rates in the entire United States, with the exception of Mountain Pacific Territory, is, no doubt, a Herculean one requiring a great deal of patience and skillful analysis. The results that will come from such an investigation cannot be foretold at this time.

Announcement of this proceeding is a timely one because of the proposed legislation now in conference committee in Congress that calls for essentially such an investigation and because of intense public interest in the subject in various parts of the country.

Closely related to this class-rate investigation is the announcement by the commission of the institution of an investigation of the consolidated freight classification that contains descriptions of commodities, carload minimum weights, and ratings on articles in Official, Southern, and Western Classifications, which make up the consolidated classification. This proceeding is known as *Consolidated Freight Classification*, I.C.C. Docket No. 28310. The purpose is to determine whether the descriptions, minima, and ratings provided in the consolidated classification are in accord with law. This investigation also presents a problem that will require several years to solve.

The commission stated in a recent notice that the broad objective of these two proceedings is to determine whether the present class-rate structure east of the Rocky Mountains can be simplified and a lawful rate structure more suited to present conditions can be established. Among the many matters to be considered is whether the establishing of a single rate level or fewer and more closely related ones than now exist is lawful and practicable and whether a simplified and uniform classification for the whole United States can be established on a lawful, practicable basis.

It is contemplated that in the early portions of the proceedings evidence will be received on general aspects of the matters in issue.

Evidence pertaining to individual articles will be received only to the extent needed to develop information necessary to the general aspects. From this it may be assumed that in later portions of the hearings evidence may be presented concerning specific items of traffic. The notice further stated that the commission proposed to have studies prepared by members of its staff and offered in evidence by qualified persons. These studies are to be given the same consideration as those presented by parties to the case.

THE KNIGHTS OF LABOR IN THE SOUTH

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I

It is frequently said in Southern industrial areas that unionism or labor organization is alien to the traditions of Southern labor, that every effort toward labor organization in the past has failed, the Southern worker being congenitally opposed to unionism. However, there is evidence to show that past efforts to organize Southern labor have met with considerable success, and that active and vigorous organization is within the tradition of the Southern worker. In the late 'eighties, under the banner of the Knights of Labor, thousands of Southern workers participated in a legitimate union movement, directed primarily toward the betterment of their material work conditions.

A background for labor organization had been laid in at least certain areas in the South[1] by the national trade unions organized during and after the Civil War, and by spontaneous local labor organization. We know, for example, that in 1860 the cigar makers of Maysville, Kentucky,[2] and the moulders of Louisville, Kentucky,[3] had local unions. In 1863, *Fincher's Trade Review* listed 3 locals in the South out of a total of 79 in the nation.[4] In 1864, there were 11 locals in the South—8 in Kentucky, 2 in Tennessee, and 1 in Virginia.[5] In that year there were 270 locals listed for the whole country. In 1863, Louisville, Kentucky, had a trade assembly, or city central body.[6]

[1] The South, for the purposes of this study, will be considered to be the ten states of Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia.

[2] John R. Commons and Associates, *History of Labor in the United States*, Vol. II, p. 70.

[3] *Ibid.*, p. 10.

[4] *Ibid.*, p. 19.

[5] *Ibid.*, p. 19.

[6] *Ibid.*, p. 22. In that year there were only ten trade assemblies in the nation.

But much of this activity was concentrated in particular areas, notably Louisville, and did not partake of the character of a real union movement. Furthermore, most of these locals were disbanded in the late 'sixties, and during the depression of 1873. About ten years later, however, these and many other workers associated themselves in unions under the banner of the Knights of Labor, and spread their organization throughout the South.

II

The Order of the Knights of Labor was organized in 1869 in Philadelphia by a small number of garmentcutters, who associated themselves in an organization pledged to the primary principles of extending their organization to include all occupations but a specified few,[7] and of protecting their organization by the most extreme secrecy.

From their modest beginnings in 1869 until the early 'eighties, the Knights of Labor made little progress in organizing American industry. They were hampered by the extreme secrecy, by indecision cn organizational forms and structure, including failure to form a true national federation, by the strenuous opposition of the churches, and by other factors. For these reasons, in the 12 years between their founding in 1869 and the year 1881, they had only organized and maintained the continued membership of 19,422 workers.[8]

However, by the early 'eighties the Knights had succeeded in correcting some of the factors that were retarding their progress. They achieved national organization in 1878. By 1881, the secrecy of the organization had been somewhat relaxed and concessions were made to the Catholic church. Craft interests were protected to some extent by permitting locals within certain trades to affiliate themselves in a National Trade Assembly. Finally, the Knights were able to demonstrate their effectiveness by winning several important strikes.[9] For these and other

[7] Those excluded from the beginning were lawyers, politicians, physicians, and rumsellers. *See* C. D. Wright, "An Historical Sketch of the Knights of Labor," *Quarterly Journal of Economics*, Vol. I, 1886–1887, p. 143.

[8] John R. Commons and Associates, *op. cit.*, Vol. II, p. 344.

[9] Notably two strikes on the Union Pacific and one on the "Gould System" of railroads. *See ibid.*, p. 367.

reasons, the Knights made rapid progress until 1886 when they reached a peak membership of over 700,000.[10]

After 1886, because of competition from the newly formed American Federation of Labor, inept leadership, failure in important strikes, notably the eight-hour strike of 1886,[11] the Knights slowly declined, so that by about 1893 they were no longer a significant force in the American labor movement. In the course of their career, however, the Knights made certain important contributions in the way of successful pressure for social legislation, material gains for their members, and lessons in organizational forms and procedures from which later organizations derived considerable benefit.

III

Naturally, while organizing the American workers, the Knights of Labor were faced with the problem of trying to extend their organization into the Southern states. As in other areas, they commissioned special organizers in the South, sent "lecturers" into the region, and made every other effort to include the Southern worker within their organization. These efforts met with considerable success.

In a recent article,[12] Professor Frank T. de Vyver indicated some of the difficulties to be encountered in attempting to estimate the present membership and extent of labor organization in the South. These difficulties are multiplied in trying to make the same estimates for a period beginning about 60 years ago. We are dependent solely on whatever written sources exist, and have little means of checking the accuracy of these sources. It has always been a difficult matter to estimate union membership because of paucity of data, and because of the many motives that exist for union leaders to falsify, exaggerate, or understate the figures. It is to be understood that any estimates made in this article are subject to a large degree of error.

[10] *Ibid.*, p. 381.

[11] Though the Knights of Labor had no official connection with the eight-hour strikes, they lost a great deal of face because of their leaders' secret attempts to prevent the strikes, and the erroneous public impression that the Knights were sponsoring the strikes, which failed.

[12] "The Present Status of Labor Unions in the South," *The Southern Economic Journal*, Vol. V, No. 4, p. 485.

The only sources of information upon which our estimates are based are various official publications of the Knights of Labor, primarily the proceedings of the annual conventions, and the official journal of the organization. Other contemporary or later sources make no effort to break down the figures on a regional basis.

From their very inception as a national organization, the Knights made serious attempts to organize the Southern workers. From 1878, when the existing locals were coalesced into a national federation, until September 1, 1879, 15 organizers were commissioned in the South.[13] Of these, 7 were in Alabama, 5 in Kentucky, and 1 each in North Carolina, Florida, and Georgia. In the early years these organizers had but little success, organizing only a few locals in isolated areas. However, these locals were sufficiently active to send representatives to the national conventions, the South being represented in all but the first, in 1878.[14] Beginning in 1884, there seems to have been increasing interest on the part of the Southern worker in the order. In that year the general secretary reported that "numerous letters have been received from parties in Florida, Alabama, and North Carolina, asking instructions how to form Assemblies."[15] As a result of this increased interest, membership in the Southern states increased tremendously in the following two years, as indicated in Table I. As the membership increased, the number of local assemblies also increased. Table II shows the number and distribution of these locals.

The figures in Table I and Table II are compiled from the annual reports of the general secretary of the order up to the year 1886. Until that time, membership figures were given in detail, each local being listed separately, with its place and its membership. It is probably justifiable to accept the official figures from 1879 to 1885 as accurate, particularly in the last year, when the tendency would have been to understate rather than exaggerate the figures, if they were to be falsified. In the early years, since the figures

[13] *Proceedings of the General Assembly*, 1879 (Chicago), p. 110, and *ibid.*, 1879 (St. Louis), p. 64–65.

[14] See proceedings of the annual conventions.

[15] *Proceedings of the General Assembly*, 1884, p. 580.

TABLE I

MEMBERS OF THE KNIGHTS OF LABOR IN TEN SOUTHERN STATES (1879–1886)

	1879	1880	1881	1882	1883	1884	1885	1886*
Alabama	336	371	71	89	32	161	203	
Florida							30	467
Georgia					30	156	298	4,514
Kentucky	139	1,484	526	458	109	479	743	2,168
Louisiana					224	234	322	3,539
Mississippi					39		218	
North Carolina							97	
South Carolina					35			
Tennessee			20		324	654	568	2,960
Virginia				15	65	62	3,215	7,560
Total	475	1,855	617	562	858	1,746	5,694	21,208
Total Knights of Labor Membership	9,287	28,136	19,422	42,517	49,458	60,811	104,066	702,924

Source: Compiled from the annual reports of the General Secretary of the Knights of Labor.

* Includes only members under Southern District Assemblies. Does not include members of locals attached directly to the General Assembly, or to any National Trade Assembly.

TABLE II

LOCALS OF THE KNIGHTS OF LABOR IN TEN SOUTHERN STATES (1879–1888)*

	1879	1880	1881	1882	1883	1884	1885	1888**
Alabama	4	10	5	2	2	5	5	64
Florida							1	18
Georgia					1	3	6	39
Kentucky	2	18	5	8	2	13	19	56
Louisiana					2	2	5	65
Mississippi					1		3	33
North Carolina							2	101
South Carolina					1			18
Tennessee			1		7	18	17	39
Virginia				1	1	2	28	54
Total	6	28	11	11	17	43	86	487

Source: Compiled from annual reports of the General Secretary of the Knights of Labor.

* Data for 1886 and 1887 not available.

** Incomplete. Compiled from vote on educational proposition reported in the *Journal of United Labor*, Vol. VIII, No. 47 and succeeding issues, and from reported letters to the Executive Committee, *Proceedings of the General Assembly*, 1888.

were supposedly secret and for the use and information of members only, there would have been little motive for misstatement. Other authorities have not been hesitant in accepting the official figures of the order at face value,[16] and we do likewise.

For the year 1886, the general secretary no longer broke down his figures into membership by locals. He did, however, give figures for each of the District Assemblies.[17] Our figures for that year, therefore, include only members of locals attached to Southern District Assemblies, and are exclusive of locals attached either to National Trade Assemblies or directly to the General Assembly. It is very likely that many Southern Knights fell into the first excluded class, and still more into the second. Our figures for 1886 are, therefore, considerably below the actual Southern membership, which may have been somewhere around 30,000.

After 1886, the reports of the order give no membership figures except totals for the whole country. For only one other year can we estimate with any degree of accuracy the membership of the order in the South. Table II gives figures for the number of locals in the South in 1888. These figures were obtained from the report of a nationwide vote on an educational proposition, the results of which were printed by locals in the official journal. From these results, we compiled a list of the locals in the South. In addition, evidence of the existence of other Southern locals was found by scanning the reported correspondence of the executive committee. By this method, we were definitely able to place 487 locals, which are estimated to be at best three-fourths of all Southern locals. Assuming the average membership of each Southern local to be about 40 (in 1885 it was 66), we estimate that in 1888 there were about 20,000 Southern Knights. This figure probably errs on the side of understatement.

We are unable to arrive at any estimates of either membership or number of locals after 1888. But after that year the organiza-

[16] Selig Perlman, for example, does so. *See* John R. Commons and Associates, *op. cit.*, Vol. II, pp. 339, 343.

[17] The District Assembly was a coalition of local assemblies within a given geographical area. The National Trade Assembly grouped all the locals of a given trade in a national assembly. However, only a few trades had national assemblies. Newly formed locals in areas without a District Assembly were attached directly to the national organization, the General Assembly.

tion lost much of its interest to a student of trade unionism for its strength was declining rapidly and it lost much of its character as a true trade union movement. The Knights of Labor became more a political organization, and in the South it became predominantly a farm group, closely allied with the Populist movement.

One further point should be made about the geographical distribution of membership. Though greatest concentration was found around such cities as Birmingham, Knoxville, Louisville, and New Orleans, locals were scattered throughout the Southern states. In later years particularly, many locals were to be found in the rural areas of North Carolina and Louisiana. A secondary concentration was in the eastern Piedmont and along some of the railways.

The Knights used two types of locals: the so-called mixed local that included anyone eligible for membership, regardless of trade, and the trade local which was restricted to members of a given trade. In later years the mixed local became the most important, and this type probably was predominant in the South. We can therefore come to no conclusions as to the extent of organization in the various trades or industries. We do know that in the South as a whole coal miners and cotton hands were well represented. In the cities artisans formed a large part of the membership. In addition, there were many farm laborers, and, in Louisiana, many sugar workers.

IV

The activities of the Knights in the South may be of interest. In the first place, there is evidence of many strikes for higher wages and shorter hours. In the coal mines of Alabama and Tennessee, we find frequent conflicts reported in the communications to the *Journal* and in appeals for aid to the executive board. Most of these strikes, however, occurred after 1886. For example, there was a coal strike in 1888 at Whiteside, Tennessee, and another in the same year at Pratt Mines, Alabama. Strikes in cotton mills are to be found in 1886 in Augusta, and in 1888 in Cottondale, Alabama. Strikes in other industries also are to be found, as in 1887 in Schriever, Louisiana, among sugar workers, and in 1890 in Ray, Alabama, among lumber workers.

These activities frequently provoked the usual sort of retaliation by employers. The iron-clad oath became familiar to Southern coal miners in this period. We find evidence of at least one vigilante group which was active in Mount Holly, North Carolina, in 1888, and which called itself the Jayhawkers.

Community and employer opposition to the Knights of Labor may have been intensified by its liberal attitude toward the Negro worker. The order practiced no discrimination against Negroes. In the South there were many Negro locals, and quite a few groups including both Negroes and whites.

Many cooperative enterprises were started by the Knights of Labor. Perhaps the earliest in the South was the National Cooperative Tobacco Company in Raleigh, North Carolina, which was organized in 1884, and which lasted many years. In towns where the only store was a company store, consumer cooperatives were occasionally started. Enterprises of this nature were to be found in Pittsburg, Kentucky; New Iberia, Louisiana; Pulaski City, Virginia, and in other places. At Mercer Station, Kentucky, there was for a time a cooperative coal mine. At Stewart's Station, Alabama, a group of Negro Knights operated a cooperative cotton gin. At Morgan City, Louisiana, there was a cooperative clothing factory. These are only isolated instances of a rather widespread but short-lived cooperative movement.

The real power of the Knights of Labor may be illustrated by the extent of their participation and success in politics. In 1887, the Knights claimed to have elected a Congressman and 11 out of 15 city council members in Lynchburg, Virginia. After the election, however, the group destroyed itself in squabbles about patronage. In 1887, the order claimed that it had elected a majority of the city and county officers and two out of three state legislators in Macon, Georgia. In the same year, an alderman was elected in Statesville, North Carolina, and several city officers in Mobile, Alabama. The next year, the Knights claimed to have elected mayors in Jacksonville, Florida, and Vicksburg, Mississippi. In Anniston, Alabama, in 1888, a mayor and seven councilmen were elected. The mayor was a carpenter, and the councilmen included two moulders, a brickmaker, a butcher, a watchmaker, a rental agent, and a shoemaker.

These and other similarly vigorous activities seem to indicate that, as early as 1885, many Southern workers took part in a strong and active movement, though the structural character of the movement was considerably different from any now familiar to us. To say that trade unionism is foreign to the Southern worker by nature seems then entirely unjustified. Given the proper impetus and a satisfactory structure, together with appropriate external conditions, the Southern worker is no more antagonistic to unionism than the worker in any other part of the country.

ODD-LOT TRADING ON THE NEW YORK STOCK EXCHANGE AND FINANCIAL DECENTRALIZATION

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Trading in nationally known corporate shares is largely concentrated on the New York Stock Exchange. Such trading falls into two main classifications, round-lots (100 shares or multiples thereof) and odd-lots (less than 100 shares). A serious threat to the continued existence of the concentrated market for odd-lot trading has arisen, however, as a result of certain policies being pursued by the Securities and Exchange Commission at the present time. It is proposed here to examine the issues involved in these policies in the light of the peculiar characteristics of odd-lot trading.

In order to understand the nature and implications of the commission's policies, it is necessary first of all to secure a clear comprehension of the mechanics of odd-lot trading. Trading in odd-lots, though conducted on the floor of the exchange, is not carried on directly between the agents of the buyer and the seller as is the case in round-lot transactions, and requires therefore what constitutes practically a subsidiary market.[1] Odd-lot transactions because of certain technical difficulties necessitate the intervention of an intermediary between brokers. These intermediaries, known as odd-lot dealers, have no direct contact with the public. They deal only with brokers, executing the orders turned over to them by the latter. For the performance of this function, the odd-lot dealer charges no commission but instead imposes a differential charge of $\frac{1}{8}$ point or $12\frac{1}{2}$ cents per share traded. Thus the

[1] In 1927 the New York Stock Exchange established the 10-share bloc as the unit of trading in a number of inactive issues. These issues are traded directly on the floor of the exchange at post 30 in the same manner as round-lots are traded. The volume of transactions in such inactive issues is, however, relatively unimportant.

odd-lot customer, beside paying the usual commission fees and stock transfer taxes to the broker, pays on all his purchases $\frac{1}{8}$ point per share more than the round-lot buyer, and receives on all his sales $\frac{1}{8}$ point per share less than the round-lot seller. This differential is not a commission in the ordinary sense of the term, but represents compensation for services rendered and risks assumed by the odd-lot dealer in the performance of his function.

Historically, the present odd-lot mechanism of the New York Stock Exchange developed as a matter of practical expediency. Until the termination of the Civil War the exchange had no prescribed unit of trading. All purchases and sales of stock, irrespective of the number of shares involved were executed by brokers at a mutually satisfactory price, through a system of bids and offers on the floor of the exchange. During the 1860's however, the expanding volume of security transactions made it physically impossible for brokers to handle orders for smaller lots in this direct fashion, without, at the same time, seriously impairing the efficiency of the market. To overcome the cluttering effects (on the New York Stock Exchange) resulting from floor trading in small lots, the brokers attempted, after 1869, to limit direct floor trading to transactions involving 100 shares or multiples thereof.[2]

The attempt to exclude orders to buy or sell stock in less than 100 share lots from the regular auction market created a problem with respect to the handling of odd-lots. For about two years the brokers tried unsuccessfully to accommodate their odd-lot customers directly by matching odd-lot purchase and sell orders, and by splitting round-lots to make odd-lot sales and accumulating odd-lots until they could be sold as round-lots. With the odd-lot business widely diffused among many brokers, these methods proved very unsatisfactory. No broker enjoyed a sufficient volume of odd-lot business in a particular stock to permit him to offset his customers' orders to buy with his customers' orders to sell. Furthermore, seeking out other brokers with offsetting transactions was slow and time consuming.

[2] Though the New York Stock Exchange did not definitely prescribe that trading between brokers on the floor of the exchange be limited to round-lots, it initiated a move in this direction by stating in its formal rules that ". . . when no amount is named, it (a bid or offer) shall be considered for 100 shares of stock."

In order to insure themselves against possible losses, on temporary inventories of securities, it was necessary for brokers to charge odd-lot customers exceedingly heavy differentials, amounting in many instances to as much as 2 points per share more or less than the market price on round-lots. In some cases, however, they attempted to shift their odd-lot orders to other brokers who were willing to assume the risks. Because of the obvious advantages of the latter procedure, odd-lot trading naturally concentrated in the hands of a few brokers who were both willing and financially able to assume these risks. Before long these brokers completely abandoned their brokerage functions and devoted all their efforts to handling odd-lot orders for other brokers.

Odd-lot dealers today serve solely as principals and not as "commission brokers." They buy and sell odd-lots, but in contrast with ordinary principals they exercise no discretion in the matter of the prices they pay or charge for stocks. These prices are automatically fixed by the prices at which round-lots in the same stocks are sold on the floor of the exchange. Even though the volume of odd-lot trading amounts to between 15 per cent and 18 per cent of the volume of round-lot trading, it is but a minor force influencing the market prices of securities since, as already explained, odd-lot prices are mechanically based on round-lot prices. Odd-lot transactions can therefore affect round-lot prices only when the odd-lot dealer finds himself long or short in a particular security so that it becomes necessary for him to balance his position by making sales or purchases in the round-lot market.

Even the most cursory examination of the system of odd-lot trading on the New York Stock Exchange can hardly fail to impress one with its economy and effectiveness. It is largely because of the refined nature of the odd-lot mechanism that small investors are able to trade in stocks at but a small cost of 12½ cents per share more than the large speculator dealing in hundreds and even thousands of shares. This low cost of odd-lot trading has been made possible by the fact that the odd-lot business has become, because of the risks involved, a highly concentrated one. Today, three concerns handle over 95 per cent of all the odd-lot trading done on the New York Stock Exchange. Because of the magnitude of their operations, which makes possible the matching of a

large volume of purchases with sales, the risks of odd-lot dealing tend to be minimized with the result that such transactions can be effected at a very low cost to the small investor. There is little reason to doubt that any breakdown in this centralized system would necessarily mean higher trading costs to the public at large.

Beginning in 1937 certain developments have taken place which seriously threaten to impair the effective functioning of the New York Stock Exchange's system of odd-lot trading. At that time, apparently reflecting the Administration's general opposition to the concentration of financial and economic control in the East,[3] the Securities and Exchange Commission began to pursue a policy designed to encourage the growth of local stock exchanges. This policy was made effective by an amendment to the Securities Exchange Act, conferring on the commission plenary power to grant to any registered stock exchange unlisted trading privileges in securities listed on any other exchange.[4] The grant of this power was of course directed primarily against the New York Stock Exchange, in whose issues the local exchanges were especially desirous of trading.

The passage of the unlisted trading amendment reflected a broad philosophy of regionalism which has become popular in official governmental circles. This philosophy has taken the form of a desire to build up a better balanced economic system through the fostering of less highly developed industrial regions. It is believed by some administrative officials that the accomplishment of this purpose necessitates the development of effective local money markets, comprising investment institutions, stock exchanges, and commercial banks. As a recent report prepared by a Committee on Stock Transfer Taxes has expressed it:[5]

"Apparently, it is felt that local industry is laboring under difficulties which flow from a lack of such financial instrumentalities. At present,

[3] This attitude of the commission respecting the undesirability of excessive concentration of control over the nation's capital was expressed in its *Report on Trading in Unlisted Securities upon Exchanges*, January 3, 1936.

[4] Public No. 621o, 74th Congress.

[5] *The Problems of Stock Transfer Taxation in the State of New York.* Preliminary Report, Committee for the Study of Federal and State Transfer Taxation (S. C. Mastick, Chairman), p. 31–32. For a study of the same problem in Great Britain see A. T. K. Grant, *The Capital Market of Post-War Britain.*

our only really refined machinery for the financing of new industries is found in New York City. However, this machinery is geared for large scale operations only, so that small industries cannot avail themselves of its services. Though most local areas possess fairly satisfactory banking facilities, their investment institutions and stock exchanges are weak. To remedy this situation the Securities and Exchange Commission believes that local stock exchanges can be helped out of their present financial difficulties, if they are given unlisted trading privileges in securities listed in the central markets. In this way the dealers and brokers associated with the local markets will obtain from local security traders some of the commissions which now go almost entirely to the dealers and brokers associated with the New York Stock Exchange. According to the management of these local exchanges, their present volume of trading is so small that unless some such aid is received from the Federal authority they will be forced to suspend operations. This it is claimed, would aggravate still further the lack of local financing facilities and would react adversely upon the development of local industry."

This financial decentralization philosophy of the commission is clearly set forth in the following excerpt from a speech made by ex-chairman William O. Douglas before the San Francisco Stock Exchange on July 14, 1937:

"In these matters I do not wish to disparage the East. From the broad national point of view, as well as from a regional point of view, we need strong capital and securities markets in the East. But the tangible and intangible values to the Nation at large and even to Wall Street of regional development are as great as they are to the regions in question. In many instances in the past, the New York market, because of its greater financial and technical resources, has been able to render this service on terms with which the financial machinery of other communities could not compete. But this is not necessarily a permanent condition. Business and finance can will it otherwise. If the larger local enterprises were to patronize their local financial centers more extensively, those local financial centers could develop into healthy resorts for both small and large companies in need of financial assistance. You know the extent to which the welfare of this region rests upon the welfare of local industry. It has often been true that risks which lie in our own back yards are just as good as the ones which become glamorous because they caught the fancy of the larger markets. However that may be, we do know that our national economic welfare rests on the welfare of small or local busi-

ness. Only regional facilities can care for that, for our national financial machinery is almost exclusively big business machinery."

The passage of the unlisted trading privilege amendment together with announcements made by the commission favoring decentralization, encouraged the local exchanges to apply for unlisted trading privileges in stocks listed on the New York Stock Exchange. In the case of practically all of these applications, the action of the commission was favorable. Between the period January 1, 1937 to August 31, 1939, unlisted trading privileges were granted to out-of-town exchanges in 99 leading New York Stock Exchange issues.

In most cases the extension of unlisted trading privileges to out-of-town exchanges has been limited to odd-lot trading. This limitation has been an outcome, in the main, of opposition by the Securities and Exchange Commission to the proposal of the local exchanges to base both their odd-lot and round-lot prices on New York prices. Inasmuch as the prices of odd-lot transactions regardless of where executed are based on round-lot prices in the primary market, it made little difference, in the commission's opinion, whether such transactions were executed on the primary or the local exchange. However, the situation in the case of round-lot transactions differed materially. If round-lot orders were diverted from the primary to the local exchanges, but were executed at prices fixed in the primary market, they would no longer influence security prices. The recorded prices would then no longer fully reflect the underlying conditions of supply and demand obtaining in the market. In short, the extension to local exchanges of unlisted trading privileges in round-lots would have served to diminish the liquidity of the central market without bringing about a compensating increase in competition on the local markets.[6]

Having received these odd-lot trading privileges, the local exchanges began to campaign actively to induce local investors and speculators to have their stock transactions executed locally rather than in New York. In particular, they stressed the fact that the public could enjoy considerable savings in stock transfer

[6] Securities and Exchange Commission, *Release No. 1298*, July 14, 1937.

taxes by so doing. Since the states in which these exchanges were located either wholly exempted stock transfers from taxation or else taxed them at much lower rates than the state of New York, these campaigns have proved to be quite effective. It has been shown in the report previously mentioned[7] that since 1937 there has been an appreciable diversion of odd-lot trading from the New York Stock Exchange to out-of-town exchanges. The report shows that whereas in 1937 eight of the more important out-of-town exchanges were responsible for 11.6 per cent of all odd-lot trading in New York Stock Exchange issues, in 1938 these same exchanges were responsible for 16 per cent. More recent estimates show that for the first six months of 1939 this percentage has increased to 22.5 per cent.

Although the shift in odd-lot trading to local exchanges has been fairly sizable, it is doubtful whether it could have exerted as yet any positive influence on local investment activity inasmuch as the important conditions necessary for a revival of the capital market generally have been lacking during the last few years. However, to the extent that this diversion has increased the volume of stock transactions effected on the local exchanges, it at least has served the purpose of bolstering the weakened financial condition of these exchanges and of reducing the possibility of their being forced to suspend trading operations. If the present diversion of odd-lot trading continues and becomes more substantial, while at the same time the state of general business activity stimulates local industries to seek financing in the capital markets, conceivably this shift will facilitate local capital market development.

The likelihood that local odd-lot trading in New York Stock Exchange issues will grow in volume is very real, for the reason that odd-lots are subject to double taxation and the savings obtainable by trading on local exchanges are considerable.[8] By

[7] *The Problem of Stock Transfer Taxation in the State of New York*, p. 46 ff.

[8] Because of the interposition of the odd-lot dealer, every odd-lot transaction, as contrasted with a round-lot one, involves a double sale—a sale by the customer through a broker to the odd-lot dealer, and a sale by the odd-lot dealer, likewise through a broker to the customer. Hence in the case of odd-lots two successive stock transfer taxes are imposed, one on the sale by the customer and one on the sale by the odd-lot dealer. In the case of a round-lot sale, on the other hand, only one tax is imposed. Since the odd-lot dealer passes his tax to the customer, the latter is taxed both on his purchase and on his sale.

granting to out-of-town exchanges odd-lot trading privileges in securities listed on the New York Stock Exchange the Securities and Exchange Commission makes it possible for small investors to make the most of these tax differentials.[9] This shifting in odd-lot trading is bound to become more pronounced in the future as security traders become fully informed as to the savings that can be enjoyed by trading locally.

The decentralization of odd-lot trading resulting from the Securities and Exchange Commission's policies is deemed by some authorities to be very undesirable, not merely from the point of view of the new York Stock Exchange interests, but also from the point of view of the general public. The present system of concentrated facilities for odd-lot trading has been demonstrated to be technically superior to any type of decentralized system, and unless the odd-lot business is concentrated, inability to match transactions would greatly increase the odd-lot dealer's risks. Larger risks would ultimately make it necessary for dealers to raise their differential charges to the public above the present $\frac{1}{8}$ point.

That the decentralization of odd-lot trading would result in high differential charges seems clearly borne out by the example of the New York Curb Market, where the whole business of odd-lot trading is widely distributed among dealers in both round and odd-lots. As a result a much larger differential than $\frac{1}{8}$ of a point on odd-lot transactions in issues traded on the Curb has persisted. A recent investigation has shown that in the case of 71 issues, representing 6.1 per cent of all Curb issues the odd-lot differential amounts to $\frac{1}{2}$ of a point; and only in the case of 326 issues, or 29.4 per cent of all issues is the differential $\frac{1}{8}$ of a point. High differential costs for odd-lots are also found under the English jobber system, where the turn or differential varies with the size of the

[9] Since the heavier stock transfer tax levied in New York State is an important incentive for buyers and sellers of securities in odd-lots to carry on their transactions on the local exchanges of other states, the shift in trading may be checked, in part at least, by the action of the New York legislature. Such action might take the form of an amendment of the existing law so as to eliminate the double taxation of odd-lot transactions. In this way the incentive for the public to trade on local exchanges will be substantially reduced. In a report (now on the press) prepared by Professor Paul Studenski for a Committee for the Study of Federal and State Stock Transfer Taxes the merits of this and other possible forms of remedial action are discussed in detail.

transaction. In short the policies of relatively high and graduated prices charged by dealers on both these exchanges, with regard to odd-lots, is in sharp contrast with the low uniform charge prevalent on the New York Stock Exchange.

These examples, together with the earlier experiences with respect to the costs of odd-lot trading on the New York Stock Exchange before the development of the present specialized system, justify the assumption that the policy of the Securities and Exchange Commission, if continued, will undoubtedly impair the efficiency of our national security market for odd-lots and lead to a substantial increase in trading costs to small investors.

As against the undesirable results which may be expected to develop from the policy being pursued by the Securities and Exchange Commission, it is necessary to consider some of the positive influences which this policy may exert on local capital financing. Thus far these positive influences have failed to manifest themselves. Such increased trading as has developed on local exchanges from the decentralization of odd-lot trading, has been primarily in nationally known securities. There has been virtually no increased activity in local issues. Obviously, if no interest in local shares is generated, investment bankers will still find that the conditions requisite for the floating of issues in local enterprises are lacking. Judging by past experience, one cannot be too confident of an increased interest in local shares since the American public seems to have a decided preference for trading in nationally known securities. In the past considerable interest in local issues offered on local exchanges has developed, usually only during times of intense speculative activity when individuals in moderate circumstances, unable to purchase the better known high priced shares, were attracted by the cheaper local stocks in the expectation of reaping quick profits. In such circumstances broad markets in local shares have blossomed even though many of the issues have been of doubtful investment merit. However, with the collapse of these speculative rides, interest in local issues has rapidly dried up so that the trading normally taking place on the local exchanges has been mainly in New York Stock Exchange issues.

In view of the foregoing considerations, it seems unlikely that the extension of odd-lot trading privileges to local exchanges will in itself contribute appreciably to the development of local investment markets. In the main, it would appear that this policy of the Securities and Exchange Commission constitutes a form of subsidy to the local exchanges, which unquestionably is weakening our present highly effective national system for odd-lot trading without positively assuring the effectuation of the commission's broad objectives.

SOME ASPECTS OF THE FAIR LABOR STANDARDS ACT

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It is the purpose here (1) to outline the economic factors which promoted the passage of the wage and hour provisions of the Fair Labor Standards Act of 1938;[1] (2) to analyze the administration of the wage provisions in the light of underlying economic problems which complicate this administrative process;[2] (3) to examine the policy of uniform minimum wages for a legislative area within which large and persistent regional differences exist; and (4) to consider the nature of the interstate-commerce-coverage interpretations made under the act.

I

The act was passed primarily because of the existence in our economy of (1) interstate markets, (2) monopolistic competition, and (3) unemployment.

Proponents of wage and hour legislation point out that, in view of the broad make-up of markets, competitive conditions within state A have a direct and important effect upon producers in state B. As a result, state A hesitates to raise its labor standards for fear of placing its producers at a disadvantage in competing with those of lower-standard state B. It follows, these proponents contend,[3] that the only effective way to deal with such a problem is through federal action. There is evidence[4] to show

[1] Public 218, 75th Congress, Chap. 676, 3rd Session.

[2] No administrative developments after June 25, 1939, are considered here.

[3] See Democratic platform of 1936; see also *The Public Papers and Addresses of Franklin D. Roosevelt*, Vol. IV, p. 218; *ibid.*, Vol. V, p. 201; see speech delivered by Elmer F. Andrews, first administrator of the act, before the American Association for Labor Legislation, Dec. 29, 1938, in Detroit, Mich.

[4] See Representative Martin's (Rep., Mass.) remarks in *Congressional Record*, Vol. 81, pp. 7882–83; see also the statements of Representative Gifford (Rep., Mass.) in the debates on

that some of the support behind the act—a consequence of the interstate nature of markets—was based on the older industrial areas' fear of the growing industrialization in the South.[5]

The act represents a continuation of the purchasing-power-theory policy as embodied in the N.I.R.A.,[6] and is a part of a general legislative attempt to erect counter price rigidities for certain groups in the economy—namely, labor and agriculture. Through the A. A. A. legislation an effort has been made to peg agricultural prices. The Fair Labor Standards Act follows the N.I.R.A. with its Section 7a and its wage and hour features, and the Walsh-Healey Act, as an attempt to "administer" labor prices. The National Labor Relations Act—an encouragement by government of organized labor's attempts to erect labor-price rigidities—is also a part of this general legislative program.

The *Hearings* and the congressional debates on the wage and hour bill reveal clearly that it was proposed in part as a means of reducing unemployment through a cutting of weekly hours.[7] Attention was called repeatedly to the increase in hours which followed the death of the N.I.R.A. with its hour restraints.[8]

The one motive which has long been recognized as a sound justification for wage and hour legislation, that of protecting the health and morals of workers, seems not to have played a dominant part in the enactment of the Fair Labor Standards Act.

II

The problem of the coverage of the act is unusually complicated and difficult. Congress, (1) yielding to first this and then that pressure group; (2) attempting to insure the constitutionality

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this measure; note also the legislative history of the act as presented by Paul Douglas and Joseph Hackman, "Fair Labor Standards Act," *Political Science Quarterly*, December, 1938, pp. 491–515.

[5] "South" as used in this paper includes Ky., Tenn., Ark., La., Miss., Ala., Ga., Fla., N. C., S. C., and Va.

[6] See Franklin D. Roosevelt, *op. cit.*, Vol. V, 504–05; see also *Congressional Record*, Vol. 81, p. 4960.

[7] See *Hearings* before the Committee on Education and Labor, Senate, and the Committee on Labor, H. of R., 75th Congress, 1st Session, especially pp. 223 and 272; see *Congressional Record*, Vol. 81, pp. 7952–54.

[8] See Witt Bowden, "Hours and Earnings Before and After the NRA," *Monthly Labor Review*, January, 1937, pp. 13–36.

of the act; and (3) seeking to incorporate in it provisions which experience under state wage and hour laws had shown to be desirable,[9] put many exemptions in the law.[10] Some of these exemptions are vague and to some extent ambiguous, and are couched in such terms—witness the "area of production" concept—as to make a feasible administrative interpretation extraordinarily difficult.

But it is in the work of the industry committees that the most serious administrative questions arise. In providing for the industry committee machinery the framers of the act were utilizing a principle of minimum wage law administration which experience with state legislation of this nature indicated was superior to the rigid provision of minima within a statute. It should be borne in mind, however, that the state minimum wage commissions have had a relatively simple task. Most of their work has been with local service industries, and with the exception of Oklahoma it has been limited to women and minors.

The Fair Labor Standards Act, on the other hand, calls for a different, inexperienced committee for each "industry," and for nation-wide wage minima without regard to the sex of the workers covered. The size of such a committee is not stipulated, but it must include "a number" of "disinterested persons" representing equally the public, the employees, and the employers. The administrator designates one of the public representatives as chairman. Of the first seven industries appointed, four[11] had 15, one[12] had 21, one[13] had 48, and one[14] had 27 members.

Industry committees must seek answers, in the shortest possible time, to such questions as the following:

(1) What will be the effect of a given minimum wage on the wage bill and the manufacturing cost of the industry? How will the increase in the minimum affect wages above that minimum? Will the increase in the wage bill be limited to the addition to

[9] E.g., the provisions concerning handicapped persons and learners.

[10] Congress placed on the administrator the duty of defining, for exemption purposes, such terms as "service," "retail," and "establishment". See *Interpretative Bulletin* No. 6, United States Department of Labor, Wage and Hour Division.

[11] Woolen, hosiery, hat, and millinery.

[12] Textile.

[13] Apparel.

[14] Shoe manufacturing and allied industries.

the wages of the lowest-paid workers or will existing differentials between the minimum wage group and the higher paid workers be maintained and wages thus increased all along the line? The increase in manufacturing cost which may be occasioned by the imposition of a minimum wage cannot be determined unless it is known whether or not these existing differentials within plants will be maintained. If they are not maintained, only the effect of the increase in payroll expense of the lower group need be considered. But if wage increases above the minimum take place, the increase in manufacturing cost may, of course, be expected to be greater. The textile committee majority was conservative indeed when it stated, "The extent of the ultimate adjustments in wages above the minimum is in some measure problematical."[15] It quoted a Cotton Textile Institute representative as saying that "it would be extremely difficult to state with complete assurance the effect of a new minimum upon the entire wage structure, because the problem, in our opinion, is not amenable to statistical determination but must be appraised in the light of the judgment and experience of the industry." The majority also quoted the Economic Section of the Wage and Hour Division to the effect that "no estimate of the effect of the establishment of a minimum wage rate on wage rates above the minimum can be made with certainty." But in spite of these uncertainties the majority adopted a "percentage" to be used as an "allowance" for the effect on wages above the minimum.[16] It used this percentage in its calculations of the effect of a 32½ cent minimum on wage bills and production costs in spite of the fact that it was forced to admit that ". . . the actual increases may be somewhat greater or smaller than those indicated (through the use of this "allowance"), depending on a number of unpredictable factors . . . ." The hosiery industry committee, Industry Committee No. 3, had this to say about the problem:

"To the extent that the wage differentials are restored after the minimum is established, some further increases in payrolls . . . may be expected. However, the Committee believes that several factors, in addi-

[15] *Report and Recommendations* of Industry Committee No. 1, Wage and Hour Division mimeographed release R-304, p. 37.

[16] For the "method" employed in arriving at this percentage, see *ibid.*, p. 4.

tion to that of a minimum rate, will determine the extent of wage increases above the minimum. For these reasons, the (Hosiery) Committee does not believe that accurate estimates of this so-called 'indirect' or 'telescoping' effect can be made at the present time."[17]

This committee then proceeded to present its minimum wage recommendations without making any allowance for possible wage increases above the minimum.[18]

(2) To what extent will an increase in production costs be passed along to consumers? That is, will the minimum wage result in any net increase in general purchasing power?

(3) To what extent will a given increase in price cut down consumption of the product of the industry in question?

(4) What ultimate effect on employment[19] will a drop in consumption of the product have?

(5) What immediate unemployment will result from a given minimum wage?

(6) Is it socially desirable to eliminate high-cost, marginal establishments? Do such establishments, with their obsolete equipment and low wages necessarily have lower unit labor costs than firms with modern equipment and higher wages? In other words, do they really constitute an illegitimate undercutting competitive threat?

(7) What effect will uniform wages have on the development of the "new" industrial South? Does the crying need for nonfarm jobs in an area of decadent agriculture and high birth rate constitute a legitimate factor which should be considered in a policy of national minimum wage legislation?[20]

(8) Are living costs lower in the rural South than in the older, metropolitan industrial centers? If so, is a lower minimum wage economically justifiable in the South?

[17] *Report and Recommendations* of Industry Committee No. 3, Wage and Hour Division mimeographed release R-310, p. 18.

[18] For a defense of the proposition that an increase in minimum wages will require a general rise in the wage rates of *all* grades of labor, see the following: statement by Dr. Leo Wolman, *New York Times*, May 3, 1939; Brookings Institution publication, *The National Recovery Administration* (1935), p. 318; mimeographed release of the Women's Bureau, United States Department of Labor, "Minimum Wage Laws Protect the Interests of All," March 1, 1938; speech by Elmer F. Andrews, A. F. of L. Convention, Houston, Texas, 1938.

[19] The act provides that a committee shall not recommend a minimum wage which will "substantially curtail" employment. Sec. 8 (c).

[20] See Part III of this paper.

(9) Do differences in transportation costs justify a wage differential to southern industry?

It is submitted here that the correct answering of such questions presents a task formidable enough to cause one to wonder whether industry committees chosen as are those under the act can justifiably be expected to bring forth socially desirable minimum wage recommendations. Here are many of the problems of price theory which have for years taxed the powers of professional economists. And yet, under the Fair Labor Standards Act, relatively untrained (economically speaking) representatives of "public," "employers," and "employees" are expected to present correct solutions to these same problems after a few weeks or months of hearing testimony and deliberating among themselves. A case in point is that of the textile industry committee, referred to above. The majority[21] and minority reports[22] of this committee and the testimony of witnesses before the committee indicate in the main that the following statements may justifiably be made concerning its work. (1) Both majority and minority felt certain that marginal, high-cost firms would be forced out of business by the 32½ cent wage recommended by the committee. (2) It was not shown that the closing of marginal mills would result in a net social gain throughout the textile regions as a whole. (3) No convincing evidence was adduced to show to what extent the increase in manufacturing cost occasioned by the minimum wage would result in higher prices to consumers. (4) On the assumption that no price increases would occur, and that the sum total of payrolls would be appreciably increased, it was not shown that this increase in payroll funds would be so spent as to increase the demand for textile products and enable the surviving mills to hire workers who may have lost their jobs as a result of the establishment of the minimum wage. (5) On the assumption that prices to consumers would increase, it was not shown to what extent this increase would affect consumption of textile products. (6) It was not shown that the small, high-cost mills, operating with obsolete machinery and at low

[21] See n. 15.

[22] *Statement of the Minority* of Industry Committee No. 1, Wage and Hour Division mimeographed release R-304a. (The vote was 13 to 6, with Chairman Donald M. Nelson and Miss Grace Abbott, both of whom were public representatives, not voting.)

wages as compared with some of the up-to-date firms, have lower unit labor costs which constitute a competitive threat to the industry as a whole. (7) It was not shown, on the assumption that increased prices would result from the minimum wage and that total cotton textile payrolls would be swelled, that farmers and agricultural workers would not, due to the higher prices, suffer a decrease in purchasing power which would offset appreciably any gains in purchasing power among the textile workers benefiting from the provisions of the act.

The prospect of a hundred[23]—and possibly more—such committees at work on the problems outlined above, so vital to the economic welfare and yet so difficult in aspect, is by no means an encouraging one.

Another serious consideration arises out of the uncertainty and confusion which reign in an industry during the period the industry committee is functioning. The nature of the committee's task makes quick action almost impossible—certainly inadvisable. During the period of the committee's deliberations the industry involved wonders just what wage will be recommended[24] and when it will come. Then follow the public hearings. The administrator may then reject the recommended wage, appoint a new committee or instruct the old one to reconsider, and the process starts all over again. Once it appears that the establishment of a minimum wage is imminent, the industry may be tempted to begin a rush of production before the deadline date. Additional confusion may arise if a committee for X industry should set a wage which affects the competitive position of that industry with regard to a competing (substitute) product from industry Y, for which no minimum wage has as yet been established.

Thus a dilemma exists. The one horn is the danger of too hasty action in dealing with the problems listed above. Long and careful deliberation seems unavoidable for the committees except in the relatively high-wage industries. The other horn

[23] While appearing before a subcommittee of the House Appropriations Committee in January, 1939, Administrator Andrews stated, "I think if we go back to the old (NRA) way of classifying industries, there would be 1,500 (industries), but I think we should get that down to less than 100."

[24] Within the significant 30–40 cents an hour range.

is the danger of confusion, uncertainty, and speculation in industry during the period of waiting for the final approval of a minimum wage recommendation.

III

It is admitted here that the principle of the minimum wage is socially legitimate in so far as it is confined to "sweated" industries and does not become wage fixing on a broad scale. A strong case, furthermore, can be presented to show that a minimum wage should be uniform for all employees in an industry, given a legislative area free from "problem" regions and throughout which industrialization has grown at approximately a uniform rate.

But what can be said concerning a policy of uniform wage minima for a legislative area within which exist a mature industrial "nation" and a "nation," old and troubled as an area of decadent agriculture, but new and immature as a developing industrial "nation"? Before examining the policy under these conditions, however, the fundamental problem of this latter "nation" should be stated.

The fundamental problem of the South arises from the fact that a soil which is becoming steadily poorer has to support a predominantly agricultural population that is growing faster by natural increase than in any other part of the country.[25] The effects on the soil and on the southern people of this uneconomic relationship between them will not be developed here. Nor will the problem condition in the Southern Appalachian Coal Plateau be analyzed. It suffices at this point to accept the proposition that new nonagricultural pursuits must be found in the South if its fundamental problem[26] is to be solved.

But, it may be asked, will not migration from the South bring about a more favorable ratio of population to economic resources in that region? Has it not done so in past years? It is true that the large and long-continued net emigration from the southern region has been beneficial. "The national income is larger and standards in the deficiency areas are higher than would otherwise

[25] See National Resources Committee, *Problems of a Changing Population*, pp. 43, 58, 60, 66.

[26] See Carter Goodrich (and others), *Migration and Economic Opportunity*; see also John V. Van Sickle, "America's Economic Problem No. 1," *State Government*, December, 1938.

have been the case. That the absolute improvement still leaves much to be desired is due to the fact that the net emigration has been largely offset by high birth rates."[27] Migration from the South, extensive though it has been, has not solved the problem of the population-land relationship. Again the statement must be made that new nonagricultural employment opportunities within the South must be created.[28]

What will be the effect of a policy of nation-wide wage minima on the rate of creation of these nonagricultural jobs? That is, how will it affect the growth of capital investment in the South? It is submitted that—in the light of its industrial immaturity, its comparatively low-value type of product, its technological lag, and its lack of a reservoir of industrially trained and industrially conscious workers—the South cannot expect its profit possibilities to be enhanced by a policy of uniform minimum wages. The factors listed above raise grave doubts as to the ability of southern industry to sustain the imposition of a minimum wage as effectively as industry in the older industrial areas. Increased labor costs will tend to dim prospects of profits in the South; and with this dimming the rate of capital investment will slacken, the rate of creation of nonagricultural jobs will fall off, and the basic population-soil unbalance will be maintained.

The unfortunate consequences of a national policy of uniform minimum wages assume added seriousness in view of the fact that the South faces higher freight costs and interest charges than do the older industrial areas. It has been shown clearly that substantial differences exist in freight costs of southern as compared with eastern or "official" territory shippers.[29] (Of interest, of course, and indirectly of great pertinence here, is the debated question of whether or not these rate differences represent discrimination, in the sense that they may not be justified from the standpoint of railroad operating costs, revenues, and the like.) No debate exists on the proposition that interest charges weigh more heavily upon southern than upon the older industry of the

[27] John V. Van Sickle, "Federal Aid and Regional Deficiencies" (Unpublished manuscript), pp. 10–11.

[28] Cf. National Resources Committee, *op. cit.*, pp. 65–66.

[29] J. Haden Alldredge, *Interterritorial Freight Rate Problem of U. S.*, House Doc. 264, 75th Congress, 1st Session.

country.[30] And in so far as this is true there is an additional deterrent to the growth of new industrial enterprises in the South.

It is submitted that the combination of the natural awkwardness of an adolescent industrialization, the disadvantage in reaching eastern markets in the face of freight rate differences and differences in proximity to that market, and the disadvantage in interest rates—the combination of these factors with a minimum wage policy geared to that of the mature industrial areas will jeopardize the creation of new nonagricultural pursuits in the South. Profit opportunities which might otherwise exist will be rendered unattractive, and as a consequence the flow of new capital into southern industry will be impeded. Such a combination as described above may, indeed, be expected to interfere with the most economic territorial distribution of industry in the United States, with the result that the sum total of goods produced and consumed within the economy will be smaller than it otherwise would be.

IV

During the first year of the act, Administrator Andrews interpreted federal interstate commerce power more broadly than it has thus far been interpreted in the history of national "non-emergency" legislation.[31] He stated that "Congress intended the widest possible application of its regulatory powers over interstate commerce."[32] The three rulings discussed below certainly represent long steps toward this "widest possible application."

(1) Administrator Andrews called attention to Section 3 (j) of the act, which states that an employee is deemed to have been engaged "in the production of goods for (interstate) commerce" if employed in any "process or occupation *necessary to*[33] the production thereof." In the light of this provision it was ruled

[30] Howard Odum, *Southern Regions of the United States*, pp. 353, 355.

[31] It is assumed here that the N.I.R.A. was in truth, as its declaration of policy states, legislation designed for an "emergency," and that the Fair Labor Standards Act is not in the same sense an "emergency" measure.

[32] *Interpretative Bulletin No. 1*, United States Department of Labor, Wage and Hour Division, p. 4.

[33] Italics added.

broadly that the statute includes such employees as maintenance workers, watchmen, clerks, stenographers, and messengers. In making this comprehensive ruling, it was the feeling of the administration that if such workers "were not doing work 'necessary to the production' of the goods they would not be on the payroll."[34]

That this ruling has an excellent chance of meeting Supreme Court approval is indicated by a 1937 decision in which the Supreme Court changed its earlier attitude toward the activities of "back shop" employees of railroads.[35] It will be recalled that the first Federal Employers' Liability Act was held unconstitutional in 1908 because the work of "back shop" railroad employees regulated by this statute affected interstate commerce only indirectly.[36]

(2) The first administrator stressed the definition of the term "goods" in Section 3(i), which states that the term includes "any part or ingredient of goods."[37] Under this definition it has been ruled that a lumber manufacturer, who sells his lumber locally to a furniture manufacturer, who in turn sells furniture in interstate commerce, must abide by the terms of the act. Likewise, if a manufacturer of buttons sells his product within the state to a manufacturer of shirts, the shirts being shipped in interstate commerce, the employees of the button manufacturer are engaged in the production of "goods" "for" interstate commerce.[38] It has been ruled that where one producer sells to another producer goods which technically are not parts or ingregredients of the goods which the second producer sells in interstate commerce, the first producer may be within the scope of the act. For example, the general counsel of the Wage and Hour Division held that where a manufacturer of containers—say shoe boxes—sells the containers within the state to another manufacturer or to a shipper who packs goods into the containers

[34] *Interpretative Bulletin No. 1*, cited in n. 32, p. 5.

[35] *Virginian Ry.* v. *System Federation No. 40*, 300 U. S. 515 (1937).

[36] *Employers' Liability Cases*, 207 U. S. 463 (1908).

[37] Sections 2(a) and 2(b) of the act indicate that employees "engaged in (interstate) commerce" or "in the production of *goods* (italics added) for (interstate) commerce" are subject to coverage by the law.

[38] *Interpretative Bulletin No.* 5, United States Department of Labor, Wage and Hour Division, p. 2.

and sells them in interstate commerce, the employees of the container manufacturer would be engaged in the production of goods for interstate commerce.[39]

A ruling by the Wage and Hour Division that "contract shop" employees are covered by the statute would seem to be strengthened by a recent Supreme Court decision under the National Labor Relations Act.[40] This case involved Benjamin and Marjorie Fainblatt who, in their Somerville, New Jersey, shop sewed materials into various types of women's sports garments—materials cut by the Lee Sportswear Company of New York and shipped by truck to the Fainblatts' New Jersey factory. Title to the cloth and to the finished garments remained at all times with the Lee Company, all manufacturing by the Fainblatts being done under contract. The finished garments were delivered to a representative of the Lee Company, who shipped them to his New York headquarters or directly to customers throughout the United States. Reversing a decision of the Circuit Court of Appeals for the Third District, the Supreme Court voted seven to two that "it was not any the less interstate commerce because the transportation did not begin or end with the transfer of title of the merchandise transported."

(3) If an employee is engaged in the production of goods for interstate commerce, but only, say, 5 or 10 or 15 per cent of these goods actually moves in interstate commerce, is he covered by the wage and hour provisions? In answering this question affirmatively the general counsel of the Wage and Hour Division held that "the entire legislative history of the Act leads to the conclusion that Congress intended to exclude from the channels of interstate commerce all goods produced under labor conditions detrimental to the health, efficiency and general well-being of workers."[41] He also stated that "employees are engaged in the production of goods for (interstate) commerce where the employer intends or hopes or has reason to believe that the goods or any unsegregated part of them will move in interstate commerce."[42]

[39] *Ibid.*, p. 3.

[40] *N.L.R.B.* v. *Fainblatt*, 83 Sup. Ct. Rep., Law Ed., 646 (April, 1939).

[41] *Interpretative Bulletin No.* 5, United States Department of Labor, Wage and Hour Division, p. 4.

[42] *Ibid.*, p. 1.

The general counsel pointed out, further, that the broad reference in Section 15(a) (1) to "any goods" is "convincing proof" of this intent of Congress to make no distinction as to the percentage of goods which moves in interstate commerce.

Certain court decisions indicate that where the greater part of the unsegregated mass of a manufacturer's product goes into interstate commerce such a manufacturer is subject to federal regulation.[43] These decisions do not, however, specify the extent to which this percentage may be reduced. The requirement of the National Labor Relations Act that unfair labor practices must tend to "affect" interstate commerce has presented a similar problem to the National Labor Relations Board. It has assumed jurisdiction where the percentage of goods shipped in interstate commerce was relatively small.[44] But the smallest percentage approved thus far by the Supreme Court is 37 per cent.[45]

V

The preceding discussion indicates that the Fair Labor Standards Act is to be questioned as to both administrative feasibility and economic policy. It indicates, too, that the interpretation of the federal interstate commerce power made under the act is the broadest ever attempted under non-emergency legislation.

The problems of "coverage" are complicated almost beyond description; and the difficult nature of the questions facing the economic laymen on the industry committees renders doubtful the soundness of their wage recommendations. The question is raised as to how a hundred or more industry committees, working under pressure and with relatively little technical training, can be expected to vote the correct answers to price problems which have been for years and are at present taxing trained economists. (Study of reasons advanced by the reporting committees in support of their recommendations reveals that they are filled with reservations and qualifications, and that the only really definite action taken is to be found in the final voting of the recommended wage.)

[43] See *Eureka Pipe Line Co.* v. *Hallahan*, 257 U. S. 265 (1921); also *Brown* v. *Lehigh Valley R. R.*, 184 Atl. 290 (1936).

[44] See *N.L.R.B.* v. *Abell Co.*, 97 F. (2d) (7.4 per cent); Clark and Reid Co., 2 N.L.R.B., 516 (10 per cent) (1936); Fletcher Co., 5 N.L.R.B. 729 (25 per cent) (1938).

[45] *Santa Cruz Packing Co.* v. *N.L.R.B.*, 303 U. S. 453 (1938).

The act must be considered against the background of factors which affect seriously the competitive relationship of southern industry as compared with that of the older industrial areas. Differences in freight costs, in capital costs, in type of product produced, in labor skill—and differences in the relative development of an "industrial tradition"—are significant enough to justify serious fears that their combination with a national policy of uniform minimum wages will affect adversely the growth of sorely needed industrialization in the South. It is submitted that there is grave danger that the development of territorial distribution of industry under the principle of comparative advantage will be retarded under the act.

The act is to be questioned further in so far as it represents a continuation of the purchasing-power-theory policy as embodied in the N.I.R.A. It is a part of a legislative attempt to raise, on a broad front, the prices of the stock-in-trade of labor and agriculture to a more "equitable" relationship with the relatively controlled and noncompetitive prices existing in another segment of the economy. An attempt is being made through the A. A. A. legislation to peg agricultural prices at uneconomic heights, in an effort to offset administered prices of many goods the farmer must buy. And special wage and hour legislation, together with the efforts of organized labor as encouraged by government, proposes to establish counter-rigidity wage rates which tend to render full employment extremely unlikely.

Whatever may be said of the political necessity of such a policy, its ultimate effect is to cut away the economic advantages of a system of free enterprise. The erection of rigidities and counter-rigidities points toward the employment of smaller and smaller quantities of economic resources—be they inanimate or animate—at higher and higher prices. And the result is that the economic system turns out fewer goods (with decreased employment) at higher prices and consumption is cut down. Thus an economic system is made to defeat its purpose.

In so far as the Fair Labor Standards Act is part of a growing pattern of restrictions on competitive price determination—going in this respect beyond the point of being primarily a law against sweating and unhealthful laboring conditions—it is to be further questioned as an instrument of sound economic policy.

BOOK REVIEWS

The Taxation of Small Incomes: Social, Revenue, and Administrative Aspects. By Paul J. Strayer. New York: Ronald Press Co., 1939. Pp. viii, 210. $3.00.

This volume is based upon the author's experience in tax research for the Twentieth Century Fund, supplemented by a first-hand investigation of the British procedure in taxing small incomes and extensive inquiries into this phase of taxation in Germany, Australia, and the American states. It is developed around the commonly accepted aims, or canons, of taxation with emphasis upon fiscal adequacy, justice and equity, tax consciousness and the problem of administration. The result is a thoroughly constructive analysis of the problems involved in the taxation of incomes below the $5,000 level.

This study shows that there is no reason to hope the federal budget can be balanced by the simple expedient of lowering personal exemptions in the income tax. With exemptions of $1,000 for married persons, $500 for single persons and $200 for each dependent, the increase in yield is estimated at $494,000,00 for a year of peak incomes and $205,000,000 for a typical depression year. About 50 per cent of the increase would come from persons not now subject to the income tax.

The greatest gain from the taxation of small incomes would be, in the opinion of the author, the gain in equity, provided the tax is used as an alternative to existing indirect levies. In this connection he emphasizes the failure of the present tax system as a whole to meet the goals of proper distribution of the tax burden. These goals he defines as progression throughout the entire tax structure and equality in the sense of equal treatment of persons with equal incomes and responsibilities. The income tax is ideally adapted to this purpose since it affords an opportunity to make allowances for differences in capacity. He thus favors the continuance of reasonable personal exemptions on social and ethical grounds as well as on grounds of administrative expedi-

ency. Ultimately such exemptions might be reduced to the subsistence level.

A rather elaborate analysis of the possibilities of developing tax consciousness leads to the conclusion that the results would be doubtful. This is due to the present distribution of incomes in the United States and the relatively small proportion of the voting population which could be brought under even the most stringent income tax, and to the psychology of the taxpayer. Too often direct levies have resulted in an overwhelming movement for repeal, rather than a wider appreciation of the duties of citizenship.

The greatest limitation upon direct taxation of small incomes lies in the practical difficulties of administration. The experience of other countries indicates that such taxation in the United States should be developed gradually. The plan would imply fundamental changes in administrative organization and technique and the development of a trained personnel. The author suggests that the first step would be to lower the exemptions of the federal tax to $2,000 for the head of a family, $800 for a single person, and $300 for each dependent. Equity would require the repeal of existing excises to the amount of the anticipated revenue.

The book is comprehensive, clear, and informing. It is characterized by careful analysis and impartial judgments. It should be read not only by students of taxation but also by persons engaged in the administration of tax laws or in the determination of tax policy. Studies of this kind may hasten the time when a simplified, coordinated tax system will replace the present welter of federal, state and local taxes.

Washington and Lee University ROBERT H. TUCKER

Science and Social Change. Compiled by Jesse E. Thornton. Washington: Brookings Institution, 1939. Pp. xi, 577. $3.00.

It is a common lament now that science has proved futile. It has created a culture that it cannot control. Some other type of thought and action must be found to scotch Frankenstein and lead humanity out of its present mess. Religion is frequently referred to, even by "tired scientists," as the force of deliverance for which we are feverishly waiting.

Probably a more sensible view is that science has never been given a chance to save society and give us a real New Deal—or a New Deck. Science has done impressive work in its own name and has also made it possible to create an empire of machines without precedent in human experience. But the efficiency and objectivity of natural science and technology have never been permitted to permeate the social and institutional realm. The outstanding characteristic of our age is the gulf which exists between our machines and our institutions. The basic problem of our era is what Professor William F. Ogburn has called "cultural lag"—the failure of our social patterns to keep pace with our mechanical patterns.

The volume under review is a well-chosen book of readings compiled by Mr. Thornton and designed to indicate the nature and import of science, the impact of science upon life in the building of our empire of machines, the manner in which machinery has affected contemporary life, the social obstacles and incentives to institutional readjustment to our mechanical era, and the outlook for better readjustment in the future. The first section of the book is devoted to "Science: Its Nature and Significance"; the second to "Invention, Industrialism, and Business Management"; the third to "Economic and Social Accompaniments of Technology"; and the fourth and final one to "The Outlook for a More Satisfactory Use of Scientific Knowledge."

The selections are excellent, and among the authors we find such distinguished names as Karl Pearson, Robert A. Millikan, John C. Merriam, Waldemar Kaempffert, John Herman Randall, Harold G. Moulton, Edwin F. Gay, Wesley C. Mitchell, Sir Arthur Salter, William F. Ogburn, Charles E. Merriam, Felix Frankfurter, James Harvey Robinson, George W. Gray, Karl T. Compton, and others.

In the opinion of the reviewer the book is very badly planned. To drive home what the compiler had in mind, one should first have marshalled the evidence as to the revolution wrought by science and machinery; then he might move on naturally to examine the archaic body of social institutions wherewith we seek to control our new mechanical equipment; next one could have indicated what science and technology might accomplish in leading us on to a better era, if given a free hand to reconstruct soci-

ety; and finally, he could have clearly presented the obstacles to bridging the gulf between machines and institutions, along with any hopeful signs of improvement in the immediate future.

As it is, the organization is confused and inchoate and one gets no good picture of cultural lag. Many pages are devoted to what are called "Economic and Social Accompaniments of Technology," when these things have little relation to technology but are mainly vestiges in economic thought and practice from a pre-mechanical age. And by what logic can one associate business cycles, the outgrowth of irresponsible finance capitalism, with technology? There is no consideration of Technocracy, which is the only forthright effort to enable science to take over the control of society and could have been presented in dignified and authoritative fashion by such a person as Walter Rautenstrauch. There is a wealth of good material in this book, but its significance would have been vastly enhanced by a logical organization. The impression which should be created by the book as a whole is clearly stated by Professor Ogburn:

"Technology develops, is let loose on society, sweeping all before it. Time on the clock of technology cannot be turned back. We cannot return to the stone age, nor to the horse and buggy, nor to the plantation days of a rural economy. Technology rolls on like a huge tidal wave, while governmental structures stand like the rock of ages in a world of disorder—an irresistible force meeting an immovable object."

Cooperstown, N. Y. HARRY ELMER BARNES

Management and the Worker. By F. J. Roethlisberger, William J. Dickson, and Harold A. Wright. Cambridge: Harvard University Press, 1939. Pp. xxix, 615, $4.50.

Here is a story of research in industrial relations whose bulk (604 large pages in small type) and statistical material (34 tables, 48 charts) may appear formidable. Yet the reader need fear no monotonous compilation of relevant and irrelevant details. On the contrary, interest can scarcely waver, for the report is as intriguing as a detective novel. It describes the procedure in and conclusions from a twelve-year program of research in the field of industrial relations conducted as such research should be, but

seldom is, undertaken. In it, the points of view and techniques of economist, psychologist, sociologist, physician, and statistician have been combined to produce a composite picture of interrelated material, physical, mental, and social circumstances, all of which operated in and about the workshop and exerted significant influences on workers' output. The result is a study that is clearly the outstanding example of research in industrial relations within the limits of a single plant on this side of the Atlantic. Even if the authors' conclusions were questioned, and this reviewer finds them both well-reasoned and stimulating, this report and the study it describes would be eminently justified by its contribution to the methodology of such research.

The present volume is the most recent and inclusive report of the research program originally undertaken in 1927 at the Hawthorne plant of the Western Electric Company. It describes the entire program in the order of chronological development, and its five sections represent a classification based on time sequence.

Part I presents a report on early experiments with lighting and accoustical arrangements, rest pauses, varying lengths of work days, and wage incentives. In the appraisal of relationships between these conditions and workers' efficiency, it became apparent that there were other factors of great importance. The more extensive study that followed sought to discover and evaluate these additional factors. Part II explains the preliminary interviewing program, in which investigators gained the confidence of employees and attempted a classification of the subjects regarded by workers as exerting most influence on their efficiency. Because criticisms of supervisors and other complaints were so frequently advanced by employees, the next stage involved a careful investigation of complaints and of supervisor's attitudes, together with a critical analysis of the interviewing procedure. That stage is described in Part III. Appraisal of the results of interviewing emphasized the significance of social relationships both within the shop and outside it, so that more detailed study of these relationships appeared essential. Part IV reports on the procedure in this phase of the investigation and the patterns of social control it disclosed.

In Part V, the authors summarize significant findings in terms

of their implications for improved managerial practice. They emphasize the ever-present danger of over-simplification in human relations, insisting that study should be directed to "the richer situational context" in which workers live and work. They conclude that it is hazardous to use output data alone as a test for fatigue and that the importance of physical limitations of workers is likely to be over-emphasized as an explanation of variations in productivity. They found that the meaning attached to rest pauses by workers was more important, in this connection, than the physical effects of such opportunities for relaxation. They conclude that attitudes of workers are so important that changes in physical working conditions may not produce predictable variations in output. They feel that most statements of the significance of monotony are oversimplified. They found that many complaints could only be fully understood in terms of employees' social and economic relationships and status. Again, none of the studies of wage incentives "gave the slightest substantiation to the theory that the worker is primarily motivated by economic interest." These are but a few of many stimulating conclusions. Final pages outline a comprehensive program of personnel counseling, which the authors regard as an essential phase of modern industrial relations practice.

University of Minnesota DALE YODER

Business Cycles: a Theoretical, Historical, and Statistical Analysis of the Capitalist Process. By Joseph A. Schumpeter. New York: McGraw-Hill Book Co., 1939. 2 Vols. Pp. xvi, 448; ix, 646. $10.00.

As the title indicates, this book is a theoretical, historical, and statistical analysis of the capitalistic process which is identified as an analysis of the business cycle. It is the continuation of a work begun 30 years ago dating from the German edition of the *Theory of Economic Development* in 1911, and does not present a new theory of the cycle. Rather it is an expansion and elaboration of the innovation theory presented then.

The business cycle is explained in terms of external factors (war, crops, gold, etc.) and innovations, and the hypothesis is that the latter is dominant. Accordingly it is a problem of explaining

the theory of innovation. It may be thought that innovation consists of inventions, new techniques, processes, and discoveries, but the term is much broader than that and includes everything that changes the production function or combines the factors of production in a different manner. One condition that must be fulfilled is that the cost of producing a given quantity with the innovation is less than the cost of producing the same or a smaller quantity without the innovation. Innovations can be identified for they are ordinarily associated with a new commodity (or an improvement of an old one), new men, a new firm, and a new plant and equipment (or a rebuilt plant).

The theory goes on to state that "innovations do not come as isolated events but tend to cluster and come in bunches, and that they are not distributed at random but tend to concentrate in certain sectors of the economy." The connecting link between innovations and the dynamics of the business cycle is made by the following assumptions: (1) that producers' expenditure is the active element in the total expenditure of the economy (consumers' and producers' expenditure), and that total expenditure is a function of producers' expenditure and its rate of change. Thus total expenditure increases more in prosperity and less in recession than total output. (2) That expenditure on plant and equipment is the active factor in producers' expenditure. (3) That innovation is the active element in total expenditure on plant and equipment. Therefore investment in the prosperity stage of the cycle (though not in the revival stage, for it is the last and not the first stage of the cycle) is the propeller of general business activity, and since progress unstabilized the economy, stabilized capitalism is a contradiction.

The analysis is carried out by constructing a theoretical model by the method of approximation which it is believed will explain the cycle and then testing it to see whether or not it bears out the facts of the case. Four approximations are made. The first yields the two-phase cycle of prosperity and recession (starting from and returning to a state of equilibrium) which is a logically complete cycle and all that is necessary. The second introduces the secondary effects (or wave) which by adding depression and

revival give the four-phase cycle. The third adds the possibility of many cycles and although the author would prefer 5, for the sake of simplicity, he uses 3 cycles, namely, the Kondratieff or long cycle of 60 years, the Juglar or medium cycle of 10 years, and the Kitchin or short cycle of 40 months. The last approximation considers the possibility of miscellaneous fluctuations coming from external factors.

The model is used to explain business cycles in United States, England, and Germany from 1787 to the present, and according to the statistical evidence available it does so with a rather high degree of success. Three Kondratieff's are used to explain the entire period. The first Kondratieff covers the Industrial Revolution from 1787 to 1842. The second or Bourgeois Kondratieff covers the second economic revolution—railroadization of the world—1843 to 1897. The third or Neomercantilist Kondratieff covers the new industrial revolution—electricity—1898 and on. Continuity is provided by stating that the "innovations responsible for a given Kondratieff contribute to the next one just as they develope from the beginning in the downgrade and revival of the preceding Kondratieff." The unusual severity of the depression of 1932–1933 may be explained by the coincidence of the depression phase of all three cycles (Kondratieff, Juglar, and Kitchin).

Several interesting features of the book are the devastating criticism of the "*perpetuum mobile*" theories of the cycle (Kalecki, Tinbergen, Lundberg), the identification of cyclical and technologgical unemployment, and the discussion of the theory of vanishing investment opportunity.

The book is a veritable treasure-house of economic theory, money, and banking, and it is extremely well written, interesting, thoughtful, and stimulating. In conclusion, Professor Schumpeter has done such a thorough piece of work and has made such modest pretentions for his masterpiece that few criticisms can be levied at the book. It might have been hoped that he would "propose a plan and recommend policies" to alleviate the cycle, but as he himself states "the process to be controlled must be known before control is possible."

Louisiana State University ERVIN KENNETH ZINGLER

Business Cycles in the United States, 1919–1932, Part II of Statistical Testing of Business-Cycle Theories. By J. Tinbergen. Geneva: League of Nations, 1939 (New York, Columbia University Press). Pp. 244. $1.25.

This is the third volume in the series on business cycles sponsored by the League of Nations. The first of this series was Professor Haberler's *Prosperity and Depression*, a theoretical analysis of business cycles; the second was Professor Tinbergen's explanation of the manner in which business-cycle theory could be tested statistically. Now, in this third volume, also by Professor Tinbergen, this statistical technique is applied to business cycles in the United States from 1919 to 1932.

The method used is the application of multiple correlation to determine the significance of various causes of fluctuations, as measured by deviations from average. For this purpose, approximately 70 variables are utilized, their relationships being expressed in the form of equations. There can be no doubt that every important variable in the field of money, income, prices, production, consumption and investment is considered in its relationship to fluctuations of business.

The method used by Professor Tinbergen may be made somewhat clearer by a concrete illustration. To determine the explanation of fluctuations in consumers' outlay, he makes use of the following variables (chosen on a priori grounds): wages and salaries, urban non-workers' income, capital gains, the rate of increase in farm prices taken as an indication of speculative profits, the cost of living, and a trend reflecting slow changes in population, habits, etc. Coefficients, representing marginal propensity to consume for each type of income, are then determined, partly by trying alternative coefficients. The result is undoubtedly a good approximation. In much the same manner, the coefficients for variables for other equations are found.

It is worth noting some of the author's conclusions. "The monetary sphere," he holds, "seems to be much less narrowly in contact with the physical sphere than one might expect." The interest rate, he finds, had a minor influence on production and speculation in this period. The principal factors inducing fluctuations are gold and central bank policy, housing, and crops.

There is also a residue of a non-discernible collection of other disturbances, some of which may on occasion become of considerable importance, although in general these residual factors may be treated as random disturbances with a tendency to cancel out. Under certain conditions, a stock exchange boom or hoarding can impose itself as the dominating factor in a business cycle.

Some consideration is also given to the problem of business-cycle policy. In the final chapter the author comments on various theories of business cycles in the light of his study of American data.

Professor Tinbergen's analysis will be extremely useful to students of business cycles. Without detracting from his work, the conclusion must be that we still need more light on the causes and control of cyclical fluctuations.

University of North Carolina E. M. BERNSTEIN

Casebook in American Business History. By N. S. B. Gras and Henrietta M. Larson. New York: Crofts & Co., 1939. Pp. vii, 765. $5.00.

Professor Gras and his associates in Business History at the Harvard Graduate School of Business Administration have published recently a number of important contributions to the study of business. The *Casebook in American Business History* occupies a central place in this group of studies: it outlines their objective, scope, and method, and affords a basic working text for courses in business history. It is a pioneer work: it initiates into the field of business history the case method, already developed at Harvard in other branches of business education; and it treats economic history with the emphasis "on business administration, that is, business policy, management, and control," the objective being "the study of decisions made and actions taken under varying circumstances in the pursuit of private profit and social gain."

The 43 cases which are included in the book were drawn chiefly from American business experiences; six European cases are included, and a seventh—dealing with national capitalism—has an international setting. Although the basis of selection is thus restricted geographically, the materials are so carefully chosen

and arranged that the broader features of the evolution of modern capitalism are forcefully presented; and at the same time there are exhibited the many and diverse and recurring problems that American business men, in their ceaselessly changing world, have faced, struggled with, and sometimes solved. The evolutionary thread groups the cases according to the successive types of mercantile, industrial, financial, and national capitalism. There are, in addition, four chapters of cases which are intended, according to the authors, as an "experimental" approach to secular trends in business history. These will serve to tie this work into the more general studies of historical price trends.

The book is intended, however, for use in instruction in *business* history. It is built up to serve as a tool of analysis of the business man's problems. How have the problems of business organization actually arisen? Have successful business concerns "reorganized" voluntarily more frequently than their unsuccessful competitors have been forced into reorganization? Have businesses normally survived the competitive struggle without growth? What pitfalls have beset growing business concerns? Have opportunistic control policies proved more successful, over the years, than those tempered by a longer look ahead and a broader social vision? These cases are biographies of going business concerns, drawn from files and accounting records and from the experiences of founders, promotors, managers, directors. All sorts are portrayed. The criteria of choice are the representativeness and inclusiveness of business problems rather than the degrees of success.

The reviewer is of the opinion that this book will be welcomed enthusiastically by business instructors. Courses and textbooks in economic history have been developed primarily to meet the needs of the students in general economics. Little, if any, change in subject or approach has been introduced during the recent period of rapid growth in business education. The traditional courses have not been without value to commerce students, but much of their content has slight claim in commerce education over the contents of general history courses. Economic history has failed hitherto to implement in any very direct manner the analytical and statistical approaches that have been developed in

business education. The most prominent reason probably for this situation is that it is a very difficult task to gather the historical data on the organization and management of private businesses. Yet it is from these records primarily that the historical lessons on the business values of judgment, intelligence, courage, insight, and initiative must be learned.

Professor Gras has written a companion volume, *Business and Capitalism* (F. S. Crofts & Company, 1939) to serve as an outline for the *Casebook*, in order that the cases may "be placed in their proper setting in the history of business." In addition, the authors have included in the *Casebook* a topical outline of a course in business history with assignments from the *Casebook* and *Business and Capitalism* together with an ample selection of readings, both general and topical, from the book and from periodical literature of economic history. Everything possible has been done to make this work in business history available for use.

University of North Carolina MILTON S. HEATH

Karl Marx. Presented by Leon Trotsky. New York: Longmans, Green & Co., 1939. Pp. 184. $1.00.

This volume of the Living Thoughts Library contains an abridgment of the first volume of *Capital*. A footnote indicates that the abridgment was made by Otto Rühle, whose brilliant biography of Marx is well known in this country. Trotsky's contribution consists of an introductory essay that is good Trotsky but indifferent Marx. Unquestionably Trotsky as a polemicist has few peers, and the historical revisionism of a thousand Stalins will not suffice to blot out the part he played in the drama of the October revolution. But it is non-dialectical to accept, as Trotsky does, the historically conditioned formulations of Marx as complete guides to the understanding of contemporary capitalism.

Rühle achieves the difficult task of reducing the first volume of *Capital* from 869 pages (Kerr edition) to 137 without sacrificing either the spirit or the essential ideas of the original. Although the rich historical documentation of the full text will be especially missed, the abridgment reveals, probably with greater clarity than the original, Marx's basic economic concepts. Since ideas are weapons, those of Marx clearly may be placed with the cerebral

TNT of history. Directly and indirectly, the impact of Marx upon social thought is tremendous, for the problems which he sought with patience and insight to solve remain desperate realities.

Not the least merit of the abridgment is that it is short enough to be used in college classes and may substitute for the *Manifesto* as an introduction to Marx's thought.

Washington, D. C. H. M. Douty

New Adventures in Democracy. By Ordway Tead. New York: Whittlesey House, McGraw-Hill Book Co., 1939. PP. 229. $2.00.

A book of essays is perhaps the toughest job that a reviewer ever has to undertake. *New Adventures in Democracy* is no exception to this principle for its subject matter ranges from a consideration of "Democratic Administration in Education", which is the first chapter, through "The Merit System in a Democracy", which is chapter nine, to "Twice Born Leaders for a Democracy", which is the final chapter. It is impossible in the space available to indicate the wealth of ideas which the author has presented in this volume. The red thread which runs through all the chapters and provides continuity and integration to the book might be styled "An Analysis of the Good Life and of the Organization of Society Which Would Render the Good Life Attainable".

One rarely finds a book nowadays written from so sincerely a humanitarian point of view. *New Adventures in Democracy* is humanitarian not only in the sense that it reflects a philosophy of unselfishness but it is humanitarian in that other meaning of the word which is cognate with the term *humanities*.

Mr. Tead tries to find the answer to the question of what a college in a democracy should be. His answer is basically, this reviewer thinks, that a college should be a study of the humanities in the broadest possible meaning of the term, although he does not so phrase it. In his chapter on "Science Instruction in a Democracy" he makes it plain that he believes that science should be studied for the same reason that the humanities were studied in the earliest days of the Renaissance when they really comprehended the whole field of human knowledge. He says, "But it

is a matter even more deeply of a constant concern for individual personality as a major end in society and for the provision of ways and means of living together which shall minister to a good life for all". Further he says: "What are these benefits? The first would by common consent be the propagation of an attitude of mind extending to one's attack on *all* life's problems which is animated by curiosity, open-mindedness, tentativeness and willingness to experiment—that total way of reflection which at its best bears the honorable name of the 'scientific method of thinking' ".

Perhaps in a simpler economy "The Good Life" could be lived without concern for problems of organization and administration. But in modern society this is impossible so the author endeavours to sketch a design for the organization and administration of education, public service and industry. As a first principle he says that each group in our schools in public service and in industry must be organized and then be given representation in determining policy. He makes, however, two extremely cogent observations, first that all groups should be encouraged to develop a sense of responsibility for policies in contradistinction to a purely bargaining point of view and, secondly, that after policies have been democratically determined, insubordination cannot be tolerated. He adds the striking qualification to his intolerance of insubordination—"Unless it be a definitely revolutionary gesture". This qualification strikes one as curious until one realizes that the author is conscious of the distinction between revolution and anarchy and tacitly assumes that revolutionists are ready to assume responsibility for the operation of a new order as well as to overthrow the old.

His whole analysis of the problems of organization and administration of society reflects the same quality of the two observations which the author makes above. They illustrate the outstanding value of the book—its attempt to outline a philosophy of social organization at once humane and practicable.

Duke University CALVIN B. HOOVER

Labor and Democracy. By William Green. Princeton: Princeton University Press, 1939. Pp. 194. $2.50.

Here is a rapid story of American labor organization seen through the eyes of one who has been in the thick of the battle since the middle 'eighties and who touches upon the succession of crises in which he was to greater or less extent a participant. As the depiction of the mind and outlook of the leader upon whom fell the mantle of Sam Gompers as President of the American Federation of Labor, the book is revealing, successful and symptomatic. A.F. of L. policy here gets its official interpretation and those in search of the philosophy behind Federation tactics will find it here—not in philosophical terms but in descriptions of the resultant acts.

The thorny problem of the relation of craft unions to industrial unions is interestingly presented, although naturally the discussion is hardly dispassionate. And as to the C. I. O., Mr. Green concludes that it "stands indicted by the judgment of American labor as an organization of workers misled by fake claims into a movement whose real purpose is to enhance the power and perpetuate the will of a few self-seeking individuals. . . ."

To the developments which have come to be known as "union-management cooperation," several pages are devoted; but they are less forthright than one could wish as to the implementing of labor's share in assuring high productivity.

In short, Mr. Green's statement is so honestly reflective of himself that it cannot be criticized for not treating many moot issues in ways that would be out of character. If any criticism is to be ventured, it cannot properly be of the book as such. It would rather have to be critical comment upon the whole point of view as to the role of organized labor in society for which this author has stood in the last decade as the preeminent spokesman.

New York City ORDWAY TEAD

National Bank Failures and Non-Failures. By Horace Secrist. Bloomington, Indiana: Principia Press, 1938. Pp. 300. $4.50.

Perhaps no aspect of American business has aroused more indignation and occasioned more inconvenience and real hardship than bank failures. Banking has been subjected to the usual quota of laws and has been afflicted with more than its share of suggested reforms. Over the years there has grown up a con-

siderable body of data, fact, and fancy as to why banks do, or do not, fail. In his search for an answer to this question, the author presents a comprehensive analysis of two sorts of data. One refers to 741 individual national banks chartered in 1921 or earlier whose annual balance sheets are available from 1921 to the year prior to failure which retained their identity throughout the period to which the data relates and which finally failed in one of the years 1925, 1929, 1930, 1931, or 1932. The second portion of the data relates to 111 selected banks located in the 7th and 10th Federal Reserve districts which did not fail in the years 1921 to 1932, inclusive.

The procedure is to study the life histories of those banks which failed from 1921 to the year immediately preceding failure and the life histories of the non-failures from 1921 to 1931, inclusive. The aim is to determine, if possible, the conditions of operation which are associated with, or perhaps presage, failure or survival. The author distinctly recognizes that such a study will not reveal the causes of failure. Not all of the conditions making for success or failure are reducible to quantitative terms; neither is the statistical technique available to isolate and determine the effects of each of the conditions which can be so expressed. The study is further limited because income accounts and profit and loss data are not available; only balance sheet figures are used.

The author states with clarity some eight assumptions which, if valid, would guarantee that the comparative results of such an analysis would reveal standards in keeping with which certain aspects of bank management and supervision can reasonably be determined. An impressive array of tables and charts testify to the magnitude and scope of the study. So far as the reviewer is competent to judge, the work is logical and practical. As to the conclusions, one can do no better than quote the admonition of the author. "Indeed, the conclusions are valid or invalid only in the light of the evidence and of the manner in which it is interpreted and used. Accordingly, the reader is invited carefully to examine the text and to withhold judgment as to both the form of the conclusions and their significance until he has acquired the necessary perspective."

University of Alabama JAMES HOLLADAY

Principles of Corporate Finance. By Milo Kimball. New York: Longmans, Green & Co., 1939. Pp. ix, 306. $1.00.

This small paper-bound volume is one of the series of American Business Fundamentals. The author attempts to present his subject briefly and as free of details as possible to give the beginning student the bare essentials. There are 22 chapters which cover in all 275 pages. The nature of the corporation and its organization, types of corporate securities, methods of acquisition of capital funds, corporate income, corporate surplus, financial expansion, financial readjustments, and corporate consolidation and reorganization are some of the important materials presented and discussed. Attention is given to legislation of a regulatory nature as it affects corporation finance. For each chapter in the text there is a helpful schedule of cross references to chapters on the same topic in several of the standard texts in the field. In addition, there is a useful reference list supplied which contains about 40 of the better known books (including those found in the cross reference table) dealing with both general and specialized aspects of corporation finance. Brief and direct questions on the subject matter of each chapter are to be found at the end of the text. There is an adequate index. Professor Kimball presents his subject clearly and simply. He succeeds very well in living up to the aims of the editor, namely, to present the distilled essence of important materials. This little book should prove useful, particularly for courses presenting some corporation finance as an aid to a better grasp of materials of a related nature.

Dartmouth College William A. Carter

Dividends to Pay. By E. D. Kennedy. New York: Reynal & Hitchcock, 1939. Pp. xvii, 288. $2.50.

This book attempts an analysis of the effect of corporate practices upon prosperity. The author writes from a background gained as financial writer for *Time* and as one of the editorial staff of *Fortune*.

The volume contains little that is new to professional economists but business men and college students should find the excellent statistical analysis of corporate income contained in the earlier chapters of the book informative and thought provoking. In

the last half, however, the author spoils his thesis by over-emphasizing his personal conviction that New Deal measures have been far superior to the proposals of conservatives, Republicans, and anti-New-Dealers.

Briefly the author's thesis is that 1348 corporations made 80 per cent of the profits of 1929 while 454,652 corporations shared the remaining 20 per cent. This mal-distribution of corporate profits made the ensuing depression inevitable. During the years 1930 to 1935 inclusive corporations *as a whole* lost 8 billions of dollars, but the 960 leading corporations were able to earn over 9 billions in this period by maintaining prices and reducing employment. Hence smaller corporations forced to purchase raw materials, supplies, and merchandise from the larger ones at prices that were stabilized found themselves caught between high fixed cost and declining sales volume that resulted from the loss of income by customers many of whom had previously been employed by the larger corporations. Consequently though corporations as a whole lost 8 billions, the larger ones made 9 billions and the smaller ones lost 17 billions.

The author would criticise the various reform measures adopted in the last decade as having for their objective not the correction of the fundamentally unsound condition which led to the depression, but a recovery of the prosperous situation which is erroneously believed to have existed in the late 'twenties.

Duke University WILFORD J. EITEMAN

The Paradox of a Metal Standard. By Anatol Murad. Washington: Graphic Arts Press, 1939. Pp. xii, 212. $2.50.

The first seven chapters of this study comprise a case study of silver. The thesis of these chapters is that a double or bimetallic standard is logically and practically impossible. After long and painful experience the nations realized this and turned to monometallism. England led the way and as gold happened to be the prevailing money at the time, she "stumbled" on the gold standard. After a few other important nations had followed this lead the doom of silver was sealed, and silver agitation was kept alive principally by the silver interests in the United States.

In the final and most significant chapter the author considers

the concept of a standard of value. To him the standard is an abstract, intangible concept which exists only in the mind of man; it is "*a vague concept of an ever-changing magnitude of purchasing power*" (p. 182). The standard itself is absolute and unchanging but as all values change, the amount of purchasing power represented by the standard will be constantly changing. The value of a given weight of gold, silver, or any other commodity is subject to change, hence no commodity can be a standard of value. In the same way, since "A continuously changing measuring rod. . .would be a logical contradiction, . . .*there can be no measuring rod of value*" (p. 186). He concludes that "*neither gold or silver, nor any other commodity can have any relation whatever with the standard of value*", and that the standard "*cannot be embodied in a concrete measuring instrument*" (pp. 186-87).

The author has performed a significant service in considering the concept of standard of value apart from any commodity, but the present treatment is unsatisfactory for several reasons. First, the question is made to appear as a minor and subordinate feature in a study of silver. Second, the case is not fully and adequately developed. Third, the presentation is not without errors and ambiguities. The question of the inherent nature of the standard of value concept is one far too large to be adequately considered in the closing chapter of a study of silver. As metallic standards recede farther into the background the whole concept must be fully and carefully reconsidered. This study has made a valuable beginning.

Several comprehensive appendices give data on the production and coinage of gold and silver and on the price of silver.

Duke University B. U. Ratchford

Investment Dynamics: a Symposium. Edited by Jules Backman. New York: Fiduciary Publishers, 1939. Pp. 150. $1.50.

"Times and methods change. New concepts displace old." This is especially true in the investment field since 1929. The American investor is now confronted with greater difficulties than ever before. The problem of investing no longer remains static but becomes dynamic. The security analyst to be successful must improve his methods and change his approach. He can no longer

depend upon the static analysis derived from financial statements. Since this is true, nothing could be more timely than this series of articles on *Investment Dynamics*.

They point out that special emphasis must be given to the political, social, economic, and technological forces to determine their effect upon the industry under consideration.

Six major industries have been analyzed by 18 experts who present their views on the basic factors influencing the industry and the outlook for each has been presented. The industries selected for discussion are the following: construction, transportation, public utility, television, retail trade and chemicals. No attempt was made to choose individual companies or securities in which investments might profitably be made.

The editor and the various writers recognize that there are many important factors influencing the individual companies and that these factors should be considered before completing an investment program. The major effort, however, was devoted to indicating the importance of considering the dynamic forces affecting the industry.

The two articles on television are both enlightening and interesting. Among the outstanding articles are "The Transformation of Transportation" by W. F. Edwards, "The Outlook for Public Utilities" by H. B. Dorau, "Long Range Factors in Building Industries" by W. C. Bober, and "Basic Trends in Retail Trade" by A. W. Zelomek.

This volume should be read by every investor both private and institutional. It could be used very profitably in connection with any college course on investments.

University of Tampa RICHARD W. BRYAN

Financial Questions in the United States Foreign Policy. By James W. Gantenbein. New York: Columbia University Press, 1939. Pp. xiv, 264. $3.25.

This is the private work of an official of the State Department. It gives a competent survey of the international monetary and credit disruption following the World War, and particularly since 1931. It takes up the war debts, the so-called international commercial debts, and problems of double taxation and govern-

ment financing of international trade, always with special consideration of the policy and of the activities of the United States government (including sub-divisions thereof and semi-public organizations sponsored by the federal government). The author does not purpose to make a new theoretical contribution to international economics, and his discussion goes rarely beyond the immediate causes of events, such as the international crisis of 1931, etc. Within these limits, it is done clearly and competently on sound traditional liberal lines. It may be regretted, however, that the obstructions which governments place in the way of international trade and international payments are merely considered as a reaction to the collapse of 1931 and not as a by-product of permanent national economic planning and as the expression of new social philosophies. Likewise it is to be regretted that the author has not seen fit to discuss in any detail the problem as to whether or not the present liberal international economic policy of the American government is compatible with other phases and tendencies of the New Deal.

There are many footnotes and footnote quotations, and there is also a rather copious bibliography composed variously of titles of treatises, textbooks, and source material. An index completes the volume.

Duke University HERBERT VON BECKERATH

A History of Economic Thought. By Erich Roll. New York: Prentice-Hall, 1939. Pp. 430. $3.00.

This book is designed to focus attention on the origin and development of economic theories so that the student will not "forget the essentially practical nature of his discipline . . ." or ". . . lose sight of the contributions which his own subject has made to the stream of human thought." To emphasize this practical nature of economics, an attempt is made to stress the factors which contributed to the growth of economic theories.

The author believes that the contemporary, if not temporary, debates of modern economic theorists merely serve to confuse the average student and to hide the true value of his science from him. To reduce this danger, a brief picture of the social and political background of the different writers is presented. Occasional brief comments are made on the economic state of society

which existed at the time some particular theory was being evolved.

The attempt to show the influence of three factors—social, political, and economic—on the theory of the writers contains both the chief weakness and the real value of the text. The former because, in the author's own words, he has not "done more than provide a first guide for such treatment of economic ideas," and the latter, because he has provided that "first guide."

The author might well have devoted more space to his discussion of such periods in economic development as "commercial capitalism," and "industrial capitalism," and to the practical questions which stimulated the development of various economic doctrines. Not much of original contribution would have been lost by omitting individual theories of writers since they have been presented more completely in other works. A greater value would have been secured by a careful combination of the theories of different schools with an exhaustive presentation of the factors influencing those theories.

The compromise made forced the author to omit many writers, especially those of the last fifty years, who have contributed much to economic thought. Entire schools are often passed with merely a comment and while one must agree that it is too early to judge the relative merit of recent writers, one wonders if the author has not, negatively at least, passed such judgment.

It is encouraging, however, to see some adjustments made in the homage paid certain schools of thought which have been neglected to the advantage of others in the past. Thus, Marx occupies a much more respectable position as the man who carried "classical doctrine to its logical conclusion." At the same time, J. S. Mill, and other writers, are relegated to a place of lesser importance in the history of economic thought which many have long thought they should occupy.

The author has made a valuable contribution to economic study, not because of the history of economic thought which he presents, but because he directs attention to the background of the writers and to the practical purposes for which their theories were developed, occasionally drawing attention to the origin of the totalitarian doctrines of the present day.

West Virginia University C. A. Matthews

Holyoke, Massachusetts: A Case History of the Industrial Revolution in America. By Constance McLaughlin Green. New Haven: Yale University Press, 1939. Pp. 425. $4.00.

Mrs. Green's social-economic history of Holyoke may be profitably studied for a variety of reasons. Here is an admirable example of the kind of meaningful and significant work that can be accomplished in the field of local history. More important, it is, as its subtitle indicates, a case history of the impact of the industrial revolution upon the men and women recruited to do its work, and upon the fortunes of those who tried to hold its direction within their hands. The processes of industrialization ground out communities in which people lived as well as power-plants and factories. The Holyokes are legion. An examination of the growth of industrial centers will doubtless reveal great variations of type; but the essential story is the same. It is this story that concerns Mrs. Green.

The author's scrutiny covered a wide range of social and economic problems: the importation of capital from Boston for the purpose of exploiting a fine water-power site and the problems presented by an absentee ownership; the ranks of the constantly recruited labor force divided by religious and ethnic differences; the consequences that befall a whole community when enterprises are mismanaged; the corruption that paralyzes city government; the cultural poverty of a factory town; and the overcrowding of slum areas. In regard to the latter it should be noted that it was not the rapid urbanization of later years which transformed working-class quarters into slums. The original promoters, on the one hand faced with the necessity of housing mill operatives in close proximity to the mills because of the lack of transportation facilities, and on the other hand inspired by an extreme reluctance to use valuable land for adequate housing, almost planned for overcrowding from the start. Educational policy was early subordinated to the labor needs of the factories. Education was commendable and desirable for the good and welfare of the community, but was also expensive. "Why should the taxpayer be heavily burdened in order to give a free education to the mill hand's child?" (p. 300). Apart from this, ignorance of the workers, to say nothing of their poverty, made still more difficult the enforcement of school laws.

Mrs. Green very properly emphasizes the planless and aimless nature of the development of the city, showing clearly the social waste involved, and reminds us that numerous industrial centers have shared Holyoke's fate. No doubt she is right. She concludes that a "planned scheme of community living which reached down to the fundamental order of society had not been possible in nineteenth-century Holyoke. Individualistic capitalism stood in the way" (p. 391). But in the twentieth century, says Mrs. Green, "Holyoke dwellers were beginning to see that the city must develop not as a series of disparate interests but as a community. Individualistic capitalism was still the accepted economic order. Citizens knew little better than they had a generation before just how to solve the community problems. But the day of social irresponsibility was coming to an end. Intelligent social conscience was dawning" (p. 391). One might question the implications of this conclusion. Private philanthropies (of the kind indicated by the author in her final chapter entitled "The Growth of Civic Conscience") designed to clean up some of the most accessible parts of the wreckage, may be as much inspired by social guilt feelings as by an intelligent assumption of social responsibility. Furthermore, the magnitude of the task is staggering. It is questionable, given the slackening in the rate of industrial expansion which Holyoke has experienced, whether private individuals, even moved by social conscience, can do much, or indeed, whether the community itself without assistance can adequately deal with the problem. The results of a century of planlessness are not easily corrected, and must await the adoption of some type of planning which may go beyond the limits of "individualistic capitalism" which the author suggests made impossible a "planned scheme of community living" in the last century.

Queens College VERA SHLAKMAN

Accounting Principles. By James O. McKinsey. Revised by Howard S. Noble. Cincinnati: South-Western Publishing Co., 1939. Pp. 885. $3.75.

An introductory accounting text of 34 chapters so organized that it may be used for a year's course in accounting, for a semester's course, and even, as this reviewer is using it, for a five-hour

one term course. In each instance a definite unit of accounting procedure may be completed.

The standardized statement approach is employed. The first 13 chapters present the essential features of sole proprietorship accounting. The next 11 chapters cover the voucher system, accounting for the partnership and corporation, manufacturing and cost accounting. The remaining chapters are devoted to a consideration of a wide range of miscellaneous subjects—departmental and branch accounting, consolidated statements, budgets, taxation, statement analysis, auditing, and accounting for insolvencies.

The text embodies many excellent features. The format is satisfactory and the text well illustrated. The majority of illustrations of statements, records, and journal entries are in type instead of script. Each chapter is followed by a group of substantial questions for class discussion, and practice problems illustrative of the subject-matter presented in the chapter. There are three practice sets. The first set covers sole proprietorship accounting; the second, accounting for a partnership and subsequent incorporation; the third, the departmentized manufacturing corporation using the voucher system. Forms for the practice sets and work books for the individual problems at the end of each chapter are available. A series of carefully prepared objective tests constitute an important phase of the service rendered by the publisher.

On the critical side the following observations seem pertinent:

Consideration of the important question of adjustments is divided between Chapters V and XI. The subject is introduced in Chapter V with a discussion of deferred charges. Further discussion of adjustments is deferred until Chapter XI when both deferred and accrued items are treated in detail.

There is an unfortunate lack of uniformity in the matter of recording adjustments. The expired or used portion of a deferred charge is set up as an expense, and closed to Profit and Loss Summary. A reversing entry is not required. On the other hand, adjusting entries for prepaid income and the accruals all need reversing entries. The technique of adjustments is always difficult for the student beginning the study of accounting, and the difficulty is materially increased when a diversity of methods is proposed.

Such highly technical subjects as consolidated statements and accounting for insolvencies seem somewhat out of place in an introductory text. One feels also that a chapter pertaining to statements and accounts for personal use could be omitted. More detailed consideration of partnership accounting would be a desirable substitute.

Additional practice material has been incorporated in the revised text. The only material available, however, is that provided at the end of each chapter, which is apt to prove meager when it is to serve the dual purpose of supplying exercises for both class and laboratory practice. This situation is more noticeable in the earlier chapters before the first practice set is reached following completion of Chapter XIII. Supplementary problems in the back of the book would be welcome. Apparent also in some chapters is a lack of balance in problem material.

Vanderbilt University M. C. Gordon

Business Law. By Dwight A. Pomeroy. Second Edition. Cincinnati: South-Western Publishing Co., 1939. Pp. xiv, 906. $4.00.

This volume contains materials on legislative enactments and judicial interpretations not found in the author's first edition. The "widespread changes in social and economic philosophy" since 1931 warrant the inclusion of "these laws which have in some instances drastically altered pre-existing concepts and principles." Other changes are found at the end of chapters. The questions in the earlier publication are supplemented by additional problems and illustrations of legal principles.

In general, the arrangement of the book comprises 19 legal subjects with a proportionate space allotted to each. In a text covering such a wide range of topics, it is impossible to treat each in detail. Greater emphasis (103 pages) is given to contracts than to any other. Only three chapters vary greatly in length from the average of 47 pages.

The term "business law" may be used to include the whole scope of law governing business transactions; a few limited subjects explaining how legal principles are developed; or certain basic rules and regulations essential to the executive for the suc-

cessful conduct of his business. The scope of this book more nearly agrees with the last of these definitions. While it contains some subject matter which usually is not found in general texts in this field, the chapters do not cover all phases of business law.

Although changed legal concepts are incorporated as nearly as they can be included in a general textbook, the reader should not expect to find an exhaustive treatment of recent legislative enactments of state and federal governments since the first issue. Furthermore, every legal principle implies that there are disputes arising from the performance of business functions to which it can be applied. A casebook, preferably *Pomeroy's Cases on Business Law*, should be used in conjunction with this book. In a reference of this description, one may find how the principle is related to a given set of facts as well as how the laws apply to actual cases.

For the library of both the business executive and the student, this volume of business law principles is a valuable addition. The individual in charge of an enterprise will find the statements clearly expressed and easy to understand. He will turn to it frequently as a reference. As a basic textbook for classroom use, the subject matter is not difficult to read and is especially adapted to stimulate the interest of the student.

Vanderbilt University E. G. Rasmussen

Business Education in the Changing South. By Walter J. Matherly. Chapel Hill: University of North Carolina Press, 1939. Pp. x, 342. $3.00.

Dean Matherly has made an excellent contribution to existing information concerning business education. He has made a special contribution to such information in the southern states. In this book he has given an excellent account of the development of business education from its beginning to the present in the southern states, covering the various phases in this dynamic field of education.

In addition to giving this historical account, without going into details, he has also raised the questions of the extent of the need for business education and the extent to which this need has been and is being met in the South. The tables presented indicate clearly that the South has lagged behind in meeting the

needs for business education, and that it is lagging in providing adequate funds for keeping teachers and leaders in this territory. The items are of especial significance in connection with his discussion and outline of the administration of business education in the South, as well as his final discussion on the preparation of business leaders of the South.

Louisiana State University JAMES B. TRANT

Human Nature Writ Large. By F. Creedy. Forword by Bronislaw Malinowski. Chapel Hill: University of North Carolina Press, 1939. Pp. 484. $3.00.

This book reviews the modern life of Western man in the light of that fundamental psychology which the anthropologist applies to the institutions, habits, and folklore of primitive people. The definitely interesting results are particularly stimulating for the economist, as a great part of the book is given to the discussion of modern economic problems from the author's specific viewpoint and approach. By training and experience, for he is as much an engineer and business man as a philosopher and scientist, the author is qualified to be specific in his criticism of the psychological inadequacies of the institutions and the methods of modern business life. Many readers will be reminded in the corresponding chapters of Veblen's work and Truman Arnold's *Folklore of Capitalism.*

To the reviewer's mind, the importance of pecuniary distinction in the mythology of capitalism is somewhat underrated as against the dramatization of the creative and pioneering adventure in it; and the importance of the merely speculative or gambling profits and of predatory gains as against income derived from productive contributions is also perhaps overemphasized. On the other hand, the discussion of modern planned and authoritarian economy in the light of mass psychology gives very interesting results, though many economists will not agree with the author's optimism about the ultimate good results of government spending and other propositions.

The merits of the book are undoubtedly great enough to deserve Professor Malinowski's enthusiastic if critical introductory note. This is true also for the chapters dealing with phases of civiliza-

tion other than economic life, particularly for the impressive chapter on religion. The reviewer believes that this book is worth the time of thoughtful readers in and outside the economic profession.

Duke University HERBERT VON BECKERATH

Graphic Presentation. By Willard C. Brinton. New York: Brinton Associates, 1939. Pp. 512. $5.00.

Twenty-five years have elapsed since Brinton's memorable contribution to statistical literature: *Graphic Methods for Presenting Facts*. In the meantime he has been accumulating illustrations which are too good to be withheld from the general public. Also, "some weeds seem to have sprung up to retard the growth of the more cultivated graphics," although his earlier book "was written largely to disclose . . . fallacies."

In content, *Graphic Presentation* is largely a collection of interesting charts and pictures, mostly of a non-technical nature, covering a wide range of subject matter, with brief comment on methodology under each illustration. These charts and pictures are reproductions from numerous sources, including a few from his *Graphic Methods*. In addition to the chapters on types of charts and excerpts from *Time Series Charts: A Manual of Design and Construction* published by the American Society of Mechanical Engineers, there are some quasi-technical chapters on such things as the use of cameras and lantern slides, selection of paper, and methods of reproduction, printing, and binding. A chapter on tabulation is thrown in, apparently for good measure. Illustrations on alternate pairs of facing pages are in color, and these pages contain also decorative chapter identification "bleed-outs" at the top and bottom. Printing was done by the photo offset process. The verbal language is Basic English. A minor feature of the book is a device whereby the reader may spin the pages rapidly until he reaches the desired chapter. On page 453 is given a detailed description of how the book was made up, including the names and addresses of the companies furnishing materials or services.

This book departs from the earlier contribution in several respects. Text material is boiled down almost to the vanishing point, leaving the maximum number of charts to speak for them-

selves. The illustrations, though in the main statistical, contain such non-statistical material as a pictorial diagram of the movements of the pig woman on the night of the Hall-Mills murder, conventional pictures of F.H.A.-approved practices in residence location and construction, a pictorial map of recreational facilities in Rhode Island, and a photograph of a model of Bethlehem Steel heat treating plant.

The almost complete elimination of text matter the reviewer believes to be a mistake, for it means that the student of graphic presentation must look elsewhere for a systematic treatment of the principles and technique of chart construction. The reviewer also believes that it would have been better if the author had made a selection from among those charts which illustrate the same points, and if he had devoted the space to a more thorough explanation of the more complicated charts shown and the more technical media of presentation mentioned.

One should expect that a weed-hater would tolerate in his garden only wholesome vegetables or decorative flowers, except where weeds, prominently labeled as such, are exhibited as examples of atrocities. Although it is admitted that what is a weed is partly a matter of taste, the reviewer noticed a number of growths that looked like weeds to him; but it would rob the reader of considerable pleasure if these were pointed out to him in advance. Nevertheless, it is hard to refrain from commenting on the most prominent feature of this new garden of charts, namely, the color arrangement. Now the reviewer is fond of color, but he thinks that on charts it should be used sparingly, to emphasize certain facts, or to make distinctions which would be difficult otherwise. But in general, this plan is not followed here. The method of printing and folding adopted determines which pages are to be "dressed up" in color, and no attempt seems to have been made to arrange the sequence of charts so that those which originally were, or advantageously could be, in color should fall on pages destined to be colored. Thus we must conclude that the colors were intended primarily as decorations. But neither the colors used—red, green, blue, yellow—all very bright, nor their combination, merit approval as works of art.

If one is well grounded in the fundamentals of graphic presenta-

tion and wishes to fill in gaps in his knowledge of the subject, or to obtain fresh ideas and inspiration, this is a good book to have on hand. Certainly there is not much in the way of graphic devices that has been overlooked. Or, if one is not a statistician, but wishes to combine pleasure with the acquisition of useful knowledge, the book is also recommended. And if you like a touch of humor with your somber statistics, you will find the collection of quantitative cartoons really funny.

University of North Carolina DUDLEY J. COWDEN

STATE NEWS

ALABAMA

Business conditions in Alabama during 1939 generally were good. A number of the major lines, including cotton textiles, steel and electric energy, attained new peaks during the last six months. Construction activity and retail trade were higher than in the latter part of any year since 1929. Employment and payrolls, also, were the largest in recent years. In general, the indices of activity in Alabama compared quite favorably with those of the United States as a whole.

Of the major industries of the state, steel production showed the most spectacular gains. Eight of the 12 months of the year established new highs. The June and August output fell below that in 1937 only. The total for the past year was 23 per cent larger than the 1929 output, and more than 10 per cent greater than 1937, the previous peak year. The smallest gains in indices of business activity were recorded in the case of production of coal and coke, bank debits, automobile sales and ordinary life insurance sales.

Students of public utilities will find several items of interest in the happenings in Alabama in recent months. The moves taken by various municipalities in the state to avail themselves of T. V. A. power has led to a great deal of controversy. Several municipalities failed to come to agreement with the existing power companies for the purchase of properties and proceeded to build municipal systems which duplicated the facilities already in existence. This situation led to the passage of an act in the Alabama Legislature known as the Booth Bill, which set down a procedure which must be followed before a municipality can acquire a duplicating system. Passage of the law resulted in a great deal of controversy with the P. W. A. authorities since the systems which were being built were being handled as P. W. A. projects. An amendment to the Booth law was finally

passed on October 12, which resulted in the release of funds on P. W. A. projects and seems to have settled the controversy.

On January 2 the State Public Service Commission ordered the dissolution of the South Alabama Power Authority. The authority, recently formed, proposed to buy south Alabama electric properties of the Alabama Water Service Company by issuing $2,000,000 in bonds, but delegates from numerous towns in south Alabama objected to the sale.

The present Dixon administration has completed its first year and has recently issued a number of statements claiming to have effected numerous economies in state operation, and to have saved very considerably by reducing expenditures, particularly in the Highway Department and in the Revenue Department.

The Bureau of Business Research of the University of Alabama has been working for several years on assembling material on a study of commodity production in the Southeast. Recently plans have been effected for carrying this study through with the result that Mr. W. M. Adamson, the statistician of the Bureau of Business Research, has been released from his regular duties to take full charge of the study. Mr. Carsten Sahlman, of the Tennessee Coal, Iron and Railroad Company, has been engaged to act as Mr. Adamson's assistant. He has been granted a leave of absence by the company. Mr. Russell E. Johnson, instructor in economics in the School of Commerce and Business Administration, University of Alabama, has been made acting statistician of the bureau in Mr. Adamson's place. Mr. Warren J. Baker, formerly of the University of Wisconsin, has been appointed to fill Mr. Johnson's place as instructor in economics.

University of Alabama H. H. CHAPMAN

FLORIDA

The report of the Florida State Marketing Bureau for the 1938–1939 season announced total harvestings of all fruits and vegetables of 220,975 car-lot equivalents as compared with 186,094 in the 1937–1938 season and an average of 144,042 for the 1931–1938 period. The total value of the 1938–1939 crop was calculated to be $102,220,663 as compared with $94,696,062 for the previous year. The average value per car-lot, however, was the lowest

on record since the 1932–1933 season. Citrus harvested accounted for 143,369 car loads, or 56,448,000 boxes, thus amounting to 65 per cent of the total fruit and vegetable crop by volume. The gross value of the citrus was estimated to be $58,647,000, with a net return to growers, before depreciation, interest on investment, or taxes, of $3,693,000. This amounted to an average return of 7 cents a box. All of the net return came from oranges, a net of 20 cents a box having been realized on that crop while losses of 9 cents and 7 cents a box were suffered on grapefruit and tangerines, respectively. Of the total citrus crop, 104,883 car-lot equivalents were shipped out of the state. After citrus, the most important crop was tomatoes, some 16,509 car-lot equivalents having been harvested, with an estimated value of $11,660,200. The value of the bean crop was $7,666,500 while celery was third among the vegetables with a value of $4,848,700.

The yield of practically all fruit and vegatable crops will be seriously reduced for the 1939–1940 season as a result of the severe late January freeze. The United Stated Department of Agriculture estimated the total loss of citrus in the state to be 11,600, 000 boxes, or more than 20 per cent of the previous season's total production. The winter bean crop is expected to be 55 per cent smaller than in 1939 while the strawberry crop was estimated to be 44 per cent below that of the previous year.

The Fifth Annual Economic Conference conducted by Rollins College was held at that institution January 31, February 1 and 2, 1940. The speakers and their topics were:

Mr. J. C. Robinson, Manager, Yowell-Drew Department Store: "Is the Customer Always Right?"

Professor John R. Commons, Professor of Economics, Emeritus, University of Wisconsin: "Collective Cycle Economics."

Dean Walter J. Matherly, College of Business Administration, University of Florida: "The Backward Art of Spending Money."

Mr. Mark Graves, President of New York State Tax Commission: "The New War Between the States."

Professor C. V. Noble, Professor of Agricultural Economics, University of Florida: "The Present Situation and Outlook of the Citrus Industry."

Mr. Marvin H. Walker, Secretary-Manager, Florida Citrus Producers

Trade Association: "Economic Problems of the Florida Citrus Industry."

Mr. L. W. Martin, Advertising Manager, Florida Citrus Commission: "The Role of Advertising in the Distribution and Sale of Citrus Crops."

Mr. James J. Banks, Vice-President, Florida Citrus Growers, Inc.: "A Four Dimensional View of the Citrus Situation."

Dr. E. F. Debusk: "Standardization and Grading of Citrus Fruit."

Mr. L. P. Dickie, Manager, Southeastern Division, Chamber of Commerce of the United States: "New and Changing Responsibilities of Business."

Mr. A. M. Harris, President, Florida Bank of Winter Park: "The Governmental War Debts."

Dr. George B. Galloway, Field Representative, National Economic and Social Planning Association: "National Planning in War and Peace."

Mr. John E. Webster, General Works Engineer, Westinghouse Electric Company: "Industry Must Take the Lead."

A good attendance at the Conference was reported.

University of Florida JOHN B. MCFERRIN

GEORGIA

During the fiscal year ending June 30, 1939, the W. P. A. spent $28,828,746 in Georgia. This is almost $2,000,000 more than the total expenditure on public schools in the preceeding fiscal year and about $10,000,000 more than the average expenditure of the public schools of Georgia in the years 1925 to 1929.

University of Georgia BURNHAM P. BECKWITH

MISSISSIPPI

To write state news from Mississippi at the present time, so that it will have value when the next issue of the *Journal* comes from press is a hazardous undertaking for any person, unless he confines himself to things that have already been set in concrete. But to confine a statement to things in concrete would not reflect current economic developments in this state. Right now the state is holding its breath. The legislature has been in session seven weeks and nothing important had come out of it until

February 16, when the free schoolbook bill was sent to the Governor for his signature. This bill provides basic texts for every school child in the state of Mississippi through the eighth grade. The cost is expected to approximate $1,500,000 for the first year, and $500,000 each year thereafter.

For the purpose of giving effect to the Governor's campaign commitments, bills are now before the legislature providing for old-age insurance in the amount of $15 per month to match $15 of federal money, which will cost in excess of $2,000,000 a year; an increase of $2,000,000 per annum for public schools; a teacher's retirement program which will cost almost $1,000,000 a year; and various other increases which will probably total around $1,500,000 per year. The Governor is also asking the repeal of the poll tax as qualification of the voting privilege, and a reduction in the automobile license tax to $3 per year for all cars. Furthermore, the state is now behind in its budget almost $1,500,000 a year.

Until February 19 no intimation had been received as to the plan of financing this program, which is certainly ambitious for Mississippi at the present time. With the exception of the textbook bill, the appropriation committees have consistently refused to report any major bill until a plan of financing could be found. But the house ways and means committee has not yet been able to find anything of importance that it regarded as politically acceptable. Those who are interested in tax reforms had hoped that the pressure for revenue and the difficulty of finding new forms of tax income might force the legislature to do something really constructive.

But apparently they are again doomed to disappointment. In order to get the appropriations committee to release some bills, the chairman of the finance committee in the senate announced that revenue bills, apparently with the sanction of the Governor, will be introduced soon. These proposals, it is stated, will take the form of an increase in the ad valorem rate from the present 6 mills to 8 or even 10 mills, a ½ to 1 cent per bottle on soft drinks, a blanket increase in all privilege tax rates by at least 25 per cent, and an increase in the income tax rates by 1 per cent in each bracket, and also a lowering of exemptions so as to include

the lower income groups, probably to an exemption of $750 for single persons, $1,500 for married persons, and $200 for each dependent person, instead of the present $1,000 for single persons, $2,500 for married persons, and $400 for dependents—also an amendment to the franchise tax to include a levy on borrowed capital.

In view of the fact that the general character of these bills was announced some days before their actual content was expected to be made known, the writer is of the opinion that this sequence was designed for the definite purpose of feeling out popular reaction before they actually went into the legislative hopper. From his understanding of Mississippi feeling at the present time he believes that some of them will never get to the floor of the house.

There is much fear that, in the end, the administration will undertake to finance its program by refunding about $8,000,000 worth of bonds that will come due during the next biennium, and by diverting the sinking fund to current purposes. Many of the people of this state, however, have not forgotten their past experiences with this sort of financing, and the outcome of such an effort is very problematical.

In short, the administration apparently has a determination to put through a very desirable and ambitious program of social welfare, though it appears completely lost as to the means for seeing it through.

One very important phase of the legislative program is a resettlement program similar to that which has been undertaken by the federal government. It consists of a scheme, the particulars for which have not yet been worked out, to rehomestead lands that have come into the possession of the state through tax default.

University of Mississippi ROSCOE ARANT

NORTH CAROLINA

The North Carolina Department of Labor reports the following percentage improvements within the state for 1939 over 1938 for identical representative firms reporting:

	Firms Reporting	Employment	Payrolls	Average Weekly Earnings
All Mfg.	537	+10.3%	+19.7%	+8.5%
Non Mfg.	75	+4.4	+4.6	+0.2
Retail	152	+5.5	+8.0	+2.4
Wholesale	123	+19.1	+16.6	−2.1
Total	887	+10.2	+19.1	+8.1

There is a favorable trend toward merit examinations for job holders in divisions of the state receiving federal grants for administration. The certified employees of the Unemployment Compensation Commission who failed to pass the merit examinations given last year will be required to retake and pass examinations to hold their present positions. Amendments to the Social Security Act require that employees of state divisions receiving federal aid for administrative operation must also take merit tests. These examinations are expected to be given in the near future.

The North Carolina Industrial Commission began operating July, 1929, in administration of the Workmen's Compensation Act. Recently the commission issued a statement covering the first ten years of its services to the state. To the 323,227 injured employees, or their dependents, $14,750, 278 was paid ($5,020,154 for medical care and $9,730,124 for compensation). The law requires employers of five or more employees (logging and sawmilling 15) to provide compensation insurance. There are an estimated 16,000 such employers in the state giving coverage to 350,000 workers.

The state will elect a governor next November for a four-year term. According to tradition, he will come from the eastern part of the state since the present governor is from the western part. To date, some six candidates have filed for the Democratic primary. About the only topics that have received much attention concern highway fund diversion and a retirement system for state employees, including public school teachers. Most, if not all, of the candidates are committed to a policy of no diversion of highway funds to the general fund of the state. During the present biennium, the legislature has authorized diversion up to $2,000,000 annually, if such diversion is necessary to balance

the general fund budget. During the first year of the current biennium, no diversion was necessary. It now appears that no diversion will be necessary during the current fiscal year.

Agitation for a retirement system for teachers and other state employees has been actively carried on for the past three or four years, and chances for the passage of some kind of retirement law are considered fairly promising in the legislative session of 1941, provided revenues continue to hold the state treasury in the comfortable position in which it now stands.

North Carolina industry increased the number of employees by approximately 15,000 in 1939. New industries in the state numbered 90 for the year, while new additions to existing plants numbered 129. Hosiery mills lead in gains: 23 new mills and additions to 38 established plants. The 1938 figures showed approximately the same increase in number of employees added, 124 new industries, and 78 additions to existing plants.

Duke University J. Maynard Keech

SOUTH CAROLINA

Announcement has been made at Clemson College concerning a grant from the General Education Board to be expended over a period of five years in a study of "The Place of Small Scale Enterprises in the Economic and Social Development of the Rural South." The study will be conducted under the direct supervision of the Department of Agricultural Economics and Rural Sociology of the South Carolina Experiment Station, but will involve active cooperation on the part of other institutions and agencies.

It is pointed out that the income available to a very high proportion of the rural population in the South is below that required for a reasonable standard of living and that the average crop land harvested per capita is not sufficient even under favorable conditions to provide profitable employment in agriculture for as many people as now live on the farm.

The purpose of the present study is to provide an inventory of existing rural enterprises which have proved successful in supplementing farm income in the past and which seem to offer opportunity for further extension and development. Attention

will be given to organization, capital and labor requirements, special skills and cultural values. Special emphasis will be placed upon cooperative enterprises and upon utilization and disposition of output.

The South Carolina State Planning Board has just issued a report on *The Fiscal System of South Carolina*. The report was prepared by G. H. Aull, head of the Department of Agricultural Economics and Rural Sociology at Clemson College and S. M. Derrick, professor of economics, at the University of South Carolina. It contains chapters dealing with "Previous Studies," "The Present Situation," "Revenue Receipts," "Governmental Expenditure," and "An Appraisal of the System." In addition there is a statistical appendix and a chart showing the title, legal citation, basis and measure of each of the various tax measures in effect in South Carolina.

Clemson College G. H. Aull

TENNESSEE

The beginning of a new decade is a good time to take a glance backward. Bank debits indicate almost exactly the same amount of expenditures in the four leading cities of Tennessee in 1939 as in 1930; a little more in Memphis and a little less in the other three. Debits in 1939 were up 120 per cent from the 1933 low in Knoxville, 91 per cent in Chattanooga, 76 per cent in Memphis and 75 per cent in Nashville. The 1939 debits were 22.6 per cent higher than those of 1938 in Memphis, 9.6 per cent in Chattanooga, 9.5 per cent in Nashville and 7.9 per cent in Knoxville.

The U. S. Department of Labor reports an increase during 1939 of 141 per cent over 1938 in the number of new dwelling units constructed in urban areas in Tennessee as compared with an increase of 40 per cent for the entire country. Permit valuation of total building construction in 1939 was 194 per cent above that of 1938 in Knoxville, 71 per cent in Memphis, 44 per cent in Chattanooga and 8 per cent in Nashville. The average increase for the United States was 20 per cent.

The gross debt of the State of Tennessee on December 1, 1939 was reported to be $110,216,000, a reduction of over $21,000,000 since June 30, 1932. The current financial position of the state

is, however, less encouraging. Faced with the prospect of a deficit of $1,250,000 the Budget Director has impounded approximately one-tenth of the appropriations for the last half of this fiscal year. The nature of the adjustments to be made is left to the discretion of the various departments involved.

E. H. Crump, powerful Memphis and Shelby County political leader, has endorsed Governor Cooper for renomination in the August Democratic primary.

The National Cotton Council has sent out from its Memphis headquarters 15,000 copies of a statement prepared by its president, Oscar Johnson, in support of reciprocal trade agreements. It designates the trade agreements as "our greatest immediate hope for solving cotton's all-important foreign trade problem."

The Memphis Light, Gas, and Water Division announced reduced gas rates to domestic users effective January 1, averaging approximately 10 per cent.

The increase in the industrial use of electricity in Memphis following the introduction of T.V.A. rates has been disappointing. Consumption of electricity by the industrial customers reported to the St. Louis Federal Reserve Bank increased only 7.3 per cent for the year 1939 and was 1.5 per cent lower in December than a year previous. Average consumption of selected industrial customers in the entire 8th district was up 12.1 per cent for the year and 11.8 per cent for December.

Southwestern RALPH C. HON

VIRGINIA

A recent report on taxation and government in Virginia prepared by the State Chamber of Commerce indicates that despite the past several troubled years Virginia's fiscal affairs are on a very sound basis. During a period when the federal government and the majority of the states were accumulating large deficits, Virginia has maintained a balanced budget. While there were small deficits in the state treasury in 1933, 1934, and 1935, these were quickly absorbed and on June 30, 1938, there was a surplus of about $6,000,000. It is estimated that on June 30, 1940, the end

of the current biennium, there will be a surplus of approximately $1,000,000.

The present net debt of the commonwealth is $14,808,802. Since 1929 the net debt has been reduced by $5,884,713. In 1901 Virginia's per capita indebtedness was third from the highest among the states while in 1938 it was eighth from the lowest.

These results have been accomplished without any general increase in the tax burden upon the wealth producing elements of the state. Furthermore, there has been no decrease in governmental activities. Expenditures for public health in 1939 were 89.1 per cent greater than in 1929; for public welfare 94.4 per cent greater; and for education the increase was 32.7 per cent.

Virginia's sound fiscal position despite the depression has been made possible to a large extent by increased revenue resulting from the rapid industrialization of the state during the past ten years. During the period from 1927 to 1937 the value of manufactured products in Virginia increased 49.5 per cent while the number of industrial wage earners increased 33 per cent. During the same period the wealth of the state increased 25 per cent, the rate of increase being exceeded only by Montana and the District of Columbia.

Another factor that has played an important part in giving Virginia a high fiscal rating has been the emphasis placed upon greater efficiency in government. Recently compiled figures show that the average per capita cost of operating and maintaining the general departments of the 48 states in the United States for the year 1937 was $20.28, while Virginia's per capita cost was $13.98 or $6.30 below the average for the country as a whole. Only 10 states enjoyed a lower per capita cost.

In keeping with Virginia's policy of reorganization of state activities to bring about greater efficiency and economy the Governor has recommended to the General Assembly, now in session, the following changes:

1. That the five boards and commissions operating in the field of public welfare, prisons, mental hospitals, and juvenile corrections be consolidated into three departments.

2. That the Division of Motor Vehicles be abolished, that its

activities in the collection of gasoline taxes and licensing of automobiles be transferred to the Department of Taxation.

3. That the three boards and commissions operating in the field of conservation-game and inland fisheries, and ocean fisheries be abolished and their functions transferred to a Commissioner of Conservation and Development.

The Governor expressed the belief that these changes would increase the efficiency of administration and save the state not less than $350,000 each biennium.

University of Virginia GEORGE T. STARNES

PERSONNEL NOTES

G. H. Aull, head of the Department of Agricultural Economics and Rural Sociology, Clemson College, served as consultant for the National Resources Planning Board during the fall and winter months.

Brant Bonner, instructor in accounting last year at Washington and Lee University, is serving in the same capacity this year at The Woman's College of the University of North Carolina.

Joel E. Brakefield has been promoted from graduate assistant to instructor in accounting at the University of Georgia.

S. L. Clement, North Carolina State College of the University of North Carolina, is on leave for the year and is working in the Department of Agricultural Economics at Harvard University.

Herman A. Ellis, formerly at the University of Kentucky, has been appointed assistant professor of commerce at the University of Georgia.

W. T. Ferrier, associate agricultural economist, Clemson College, was elected chairman of the Agricultural Economics and Rural Sociology section in the Association of Southern Agricultural Workers at a meeting in Birmingham, February 7–9.

Stuart W. Girriel, assistant professor of marketing in the School of Business Administration of the University of Miami, died February 3.

R. E. L. Green is on leave for the year from North Carolina State College, University of North Carolina, and is working in the Agricultural Economics Department at Cornell University.

C. Addison Hickman, instructor in business administration at John B. Stetson University, has resigned, effective the end of the present academic year, to enter Columbia University for work on his doctorate.

George M. Joyce of the Department of Economics of The Woman's College of the University of North Carolina is on leave of absence this year to do graduate work at the University of Pittsburgh.

J. D. Kinard, formerly assistant supervisor of rural research for the W. P. A., has been appointed assistant rural sociologist in the

Department of Agricultural Economics and Rural Sociology at Clemson College.

Boyce F. Martin, formerly assistant dean of the Graduate School of Business Administration, Harvard University, has assumed his office as dean of the School of Business Administration at Emory University.

Otho V. Overholser, assistant professor of economics and business law in the School of Business Administration of the University of Miami, has resumed his regular work after spending the first semester of the present academic year doing graduate work at Stanford University.

Milo J. Peterson has accepted a position as agricultural economist on the staff of the South Carolina Agricultural Experiment Station of Clemson College.

Lloyd B. Raisty of the University of Georgia is directing a survey of municipal government in Georgia. This project is jointly sponsored by the University of Georgia and the T. V. A.

Charles F. Scheider has been promoted from graduate assistant to instructor in commerce at the University of Georgia.

Maurice A. Strickland, formerly of New York University where he recently received his doctorate in economics, has replaced Professor McNatt on the economics faculty of North Carolina State College of the University of North Carolina.

Glen W. Sutton of the University of Georgia served throughout the summer of 1939 as national director of a Bureau of Labor Statistics survey of state, county, and municipal employment and payrolls. In the fall he resumed his position of southern regional director.

W. G. Thornton, Jr., assistant professor of business administration at The Citadel, was granted a leave of absence for 1939–1940 to do graduate work at Ohio State University.

Thomas L. Wade, who has offered the courses in accounting and statistics at Mercer University, has accepted an appointment on the faculty of the University of Alabama. His place at Mercer University is filled by T. A. Bancroft.

Marcus Whitman, University of Alabama, is engaged in a study of public utility securities. This work is being done in connection with the special study that is being carried on by the Twentieth Century Fund.

NOTES

MERCER GRIFFIN EVANS, 1901–1939

The members of the Southern Economic Association who have known of the death of Dr. Mercer Evans have received the information with a sense of profoundest shock. This emotion results from the very great contributions that Mercer Evans made to the foundation and early continuity of the association, and is the deeper because he was universally known, respected, and admired by the association's members.

Mercer Griffin Evans died of a heart infection, on the early morning of December 12, in Washington, after an extended illness. He was 38 years of age, having been born in Gulfport, Mississippi, June 14, 1901, the son of Mary Abney and Thomas C. Evans. His early life and schooling were at Gulfport. He took his A. B. degree at Emory University in Atlanta in 1922, his M. A. degree at the University of Chicago in 1924, and his doctorate of philosophy in economics from the same institution in 1929. He was married on August 10, 1927, to Eva Knox of Atlanta, who survives him.

Dr. Evans taught at Emory University for eleven years, from 1924 through 1935, and was at the time of his resignation associate professor of economics. During his faculty service he was greatly interested in questions pertaining to the curriculum and the improvement of instructional results. He was chairman of faculty committees on curriculum and faculty reorganization and in that capacity had a considerable responsibility for the authorship of reports that were important in the evolution of thought on these problems at Emory.

In 1934, while still teaching at Emory University, Dr. Evans organized and administered, at the request of the State Relief Administrator of Georgia, a research project on the history and extent of unemployment and unemployability in Atlanta and Fulton County. This project was a major undertaking, using

approximately 100 people on research tabulations for nine months. During his years at Emory, moreover, Dr. Evans served at various times as a member of the board of directors of the local chapter of the National Urban League; as a member of the board of advisers of the Family Welfare Society; as a member of the committee on statistics of the Fulton County Community Chest; and as a member of the board of directors of the central statistical organization of the welfare agencies of the city of Atlanta.

In June, 1935, Dr. Evans became senior economist for the Labor Relations Division of the Resettlement Administration (afterward the Farm Security Administration), and in August of the same year he was made director of the division. Later on, in April 1939, the Personnel and Labor Relations Divisions of the Farm Security Administration were combined, and Dr. Evans was made director of the unified division.

In his last post, Dr. Evans had a wide range of important duties involving an unusual combination of administrative detail and research undertakings. In this position Dr. Evans demonstrated an executive skill of the highest order. He was charged with responsibility for the exercise of independent judgment and unreviewed action in connection with the personnel and labor relations of the administration and had under his direction a staff of six sections and a staff of field representatives. He had the duty of initiating and recommending personnel policies for the administration and for the application and observance of approved policies. He was in charge of recruitment and in-service training and had a supervisory relationship to regional personnel officers. In connection with labor relations, he was responsible for advising the administration in respect to policies and procedures, including the establishment of wage rates and working conditions, and in respect to farm labor problems bearing on the Farm Security Administration program.

There will appear in another place, in an account of certain phases of the Southern Economic Association's organization and development, a tribute to Dr. Evans' part in the formation and evolution of the association.[1] It is there indicated that his place

[1] See Walter J. Matherly, "The History of the Southern Economic Association", *The Southern Economic Journal*, July, 1940.

was of paramount importance, and it will suffice herein simply to confirm without reservation the statement elsewhere made.

Mercer Evans served as secretary and treasurer and then as secretary for several of the earliest years of the association and participated importantly in the early organizational meetings. He was vice president in 1934. It is entirely true to say that he gave the association an element of being during a period when, without his contributions of effort and judgment, it could hardly have established itself. He gave vast amounts of time to the indispensable service of his offices in the association and, beyond that, raised funds for and organized the early meetings in Atlanta. He edited *The Industrial South*, the first of the association's publications.

It is hardly necessary in writing to the group composing the association to attempt an estimate of Mercer Evans, either as a man or as an economist or as a friend.

Let it merely be said, then, with the simplicity he would have wished, that Mercer Evans was able, modest, and loyal. He was an economist who reasoned with precision and possessed, in unusual measure, the ability to view his discipline as related to society and to social evolution. He was unstinted in the expenditure of his energy, generous in his judgment, exact in exposition, and courteous in debate. His contribution to the thought of those who were associated with him is marked. To the writer, as to the host of his other friends, the world is a lonelier place without him.

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[2] This list of publications is incomplete. The writer will be grateful to readers who will call his attention to missing items, so that a complete bibliography may be assembled.

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MALCOLM H. BRYAN

THE SOUTHERN ECONOMIC ASSOCIATION WILL MEET IN NEW ORLEANS

The executive committee of the American Economic Association decided at its meeting in Philadelphia last December to hold the 1940 meeting in New Orleans. It also voted to extend to the Southern Economic Association an invitation to meet jointly with them. Upon the receipt of this invitation, it became necessary for the executive committee of the Southern Economic Association to reconsider the time and place of our 1940 meeting. Accordingly, the executive committee of the Southern Economic Association was polled by mail with the result that a unanimous vote was cast in favor of a joint meeting with the American Economic Association in New Orleans. Incident to this process, the Nashville group, which had extended our association the invitation to meet there in 1940, was consulted and they expressed their complete acquiescence in a reconsideration of the place and time of meeting.

Accordingly, the Southern Economic Association has accepted the invitation of the American Economic Association to meet in joint session in New Orleans on or about December 27, 1940. The extent and character of the collaboration on the program is now being worked out by Mr. Malcolm H. Bryan, our Vice President in Charge of Program for 1940, and Professor F. C. Mills, President of the American Economic Association and Chairman of its Program Committee. In due course announcements will be made as to the details of the joint program.

JOHN B. WOOSLEY

BOOKS RECEIVED

The Statistical Pattern of Instalment Debt. By R. A. Young and Blanche Bernstein. New York: National Bureau of Economic Research, Bulletin 76–7, October 15, 1939. Pp. 23. 50 cents.

The Living Thoughts of Karl Marx. Presented by Leon Trotsky. New York: Longmans, Green & Co., 1939. Pp. 184. $1.00.

Origins of Class Struggle in Louisiana: a Social History of White Farmers and Laborers During Slavery and After, 1840–1875. By Roger W. Shugg. University, La.: Louisiana State University Press, 1939. Pp. x, 372.

Graphic Presentation. By Willard C. Brinton. New York: Brinton Associates, 1939. Pp. 512. $5.00.

The New Wall Street. By Rudolph L. Weissman. New York: Harper & Brothers, 1939. Pp. x, 308. $3.00.

Agriculture in Modern Life. By O. E. Baker, Ralph Borsodi, and M. L. Wilson. New York: Harper & Brothers, 1939. Pp. vii, 303. $3.50.

The Baltimore and Ohio in the Civil War. By Festus P. Summers. New York: Putnam's Sons, 1939. Pp. xi, 304. $3.00.

Out of the Frying Pan. By Winston and Marian Moore. Los Angeles: De Vorss & Co., 1939. Pp. 185. $1.50.

What Will Social Security Mean to You? Cambridge, Mass.: American Institute for Economic Research, 1939. P. 96. $1.00.

Monetary Experiments: Early American and Recent Scandinavian. By Richard A. Lester. Princeton: Princeton University Press, 1939. Pp. xvii, 316. $3.50.

Management and Labour. By K. G. Fenelon. New York: Chemical Publishing Co., 1939. Pp. 276. $3.00.

Labor and Democracy. By William Green. Princeton: Princeton University Press, 1939. Pp. 194. $2.50.

Weltanschauung, Science and Economy. By Werner Sombart. Translated by Philip Johnson. New York: Veritas Press, 1939. Pp. ix, 60. $1.00.

Financing Economic Security in the United States. By William Withers. New York: Columbia University Press, 1939. Pp. 210. $2.75.

An Outline of Economic Principles and Problems. By Francis A. Linville. New York: Saga Press, 1939. Pp. 217. 75 cents.

Holyoke, Massachusetts: A Case History of the Industrial Revolution in America. By Constance M. Green. New Haven: Yale University Press, 1939. Pp. ix, 425. $4.00.

Human-Relations Manual for Executives. By Carl Heyel. New York: McGraw-Hill Book Co., 1939. Pp. xvi, 253. $2.00.

Manners and Morals of Business. By Max Radin. New York: Bobbs-Merrill Co., 1939. Pp. 270. $2.50.

Twenty-First Annual Report of the Department of Revenue, Commonwealth of Kentucky, 1939. Pp. 41.

Economic Consequences of the Seven-Hour Day and Wage Changes in the Bituminous Coal Industry. By Waldo E. Fisher. Philadelphia: University of Pennsylvania Press, 1939. Pp. xv, 130. $2.00.

Government and Business. Second Edition. By Ford P. Hall. New York: McGraw-Hill Book Co., 1939. Pp. xii, 455. $4.00.

The Evolution of the Classical Wage Theory. By Michael T. Wermel. New York: Columbia University Press, 1939. Pp. xii, 190. $2.25.

Mothers of the South: Portraiture of the White Tennant Farm Woman. By Margaret Jarman Hagood. Chapel Hill: University of North Carolina Press, 1939. Pp. vii, 252. $2.00.

Social Change and Labor Law. By Malcolm Sharp and Charles O. Gregory. Chicago: University of Chicago Press, 1939. Pp. vii, 175. $2.00.

Social Security and Pay-Roll Accounting. By J. F. Sherwood and John A. Pendery. Cincinnati: South-Western Publishing Co., 1939. Pp. 256. $2.60.

Normal and Abnormal International Capital Transfers. By Marco Fanno. Minneapolis: University of Minnesota Press, 1939. Pp. xi, 120. $2.00.

The Agricultural Industries. By Deane W. Malott and Boyce F. Martin. New York: McGraw-Hill Book Co., 1939. Pp. viii, 483. $4.00.

Accounting Requirements of the Securities and Exchange Commission. By B. Bernard Greidinger. New York: Ronald Press Co., 1939. Pp. xviii, 517. $5.00.

National Labor Relations Board Cases: United States Supreme Court Decisions. Edited by Charles Aikin. New York: John Wiley & Sons, 1939. Pp. 117. $1.00.

Price Maintenance in Knoxville, Tennessee Under the Tennessee Fair Trade Act of 1937. By Charles W. Lewis. Knoxville: University of Tennessee, 1939. Pp. 64.

Getting and Spending: the A B C of Economics. By Mildred Adams. New York: Macmillan Co., 1939. Pp. 125. 60 cents.

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Carter Glass: a Biography. By Rixey Smith and Norman Beasley. New York: Longmans, Green & Co., 1939. Pp. xv, 519. $3.00.

Progress of Labor in the United States. By Sigmund Uminski. New York: House of Field, 1939. Pp. 254. $2.50.

Studies in Income and Wealth. Vol. III. By the Conference on Research in National Income and Wealth. New York: National Bureau of Economic Research, 1939. Pp. xxiii, 479. $3.50.

Price Research in the Steel and Petroleum Industries. New York: National Bureau of Economic Research, 1939. Pp. xiii, 170. $2.00.

Textile Markets: Their Structure in Relation to Price Research. New York: National Bureau of Economic Research, 1939. Pp. xx, 266. $3.00.

Economics of Socialism. By H. D. Dickinson. New York: Oxford University Press, 1940. Pp. x, 262. $3.25.

New Adventures in Democracy. By Ordway Tead. New York: Whittlesey House, McGraw-Hill Book Co., 1939. Pp. vii, 229. $2.00.

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A Guide to Workmen's Compensation. By H. D. Margulies and Max Bloom. New York: Progress Books, 1939. Pp. 94. 50 cents.

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Money Economy by an Engineer. By L. H. White. Birmingham, Ala.: Birmingham Printing Co., 1939. Pp. v, 132. $3.00.

Foreign Exchange Practice and Policy. By Frank A. Southard, Jr. and Others. New York: McGraw-Hill Book Co., 1940. Pp. ix, 215. $2.50.

Phylon. The Atlanta University Review of Race and Culture, Vol. I, No. 1, First Quarter, 1940.

Wanted

BACK NUMBERS OF THE SOUTHERN ECONOMIC JOURNAL

The April, 1936, issue of *The Southern Economic Journal* (Volume II, Number 4) is exhausted. Yet libraries desire to acquire complete files of back numbers of the *Journal* and continue to ask for numbers of this issue. Members of the Southern Economic Association and subscribers who have copies of this issue that they would be willing to dispose of would render us a genuine service if they would write and make this fact known. We should like to have donations of copies of this issue, but we will pay the full price of $1.00 each for a limited number of copies. An early and generous response would be appreciated.

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